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

FORM 10-K/A
(Amendment No. 1)

(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, 2017
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from to .
Commission file number 001-38357

PLAYAGS, INC.
(Exact name of registrant as specified in its charter)

Nevada	46-3698600
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

5475 S. Decatur Blvd., Ste #100
Las Vegas, NV 89118
(Address of principal executive offices) (Zip Code)
(702) 722-6700
(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act: None
Securities to be registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	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 ☒

Neither the registrant's voting common stock nor its non-voting common stock are publicly traded, and accordingly had no market value as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter. As of March 13, 2018, there were 35,244,003 shares of the Registrant's common stock, $.01 par value per share, outstanding.

EXPLANATORY NOTE

PlayAGS, Inc. (formerly, AP Gaming Holdco, Inc.) (the "Company") is filing this Amendment No. 1 on Form 10-K/A (the "Amendment") to its annual report on Form 10-K for the fiscal year ended December 31, 2017, which was originally filed with the Securities and Exchange Commission on March 14, 2018 (the "Original Filing").

The purpose of the Amendment is to correct a typographical error in the PricewaterhouseCoopers LLP Report of Independent Registered Public Accounting Firm ("Auditor's Report"), included in Item 8, "Financial Statements and Supplementary Data." The typographical error that was corrected concerns the date of the Auditor's Report, which referenced 2017 instead of 2018 due to an inadvertent oversight in the EDGAR preparation process. No other changes were made to the Auditor's Report other than the date included in the EDGAR filing.

This Amendment amends the Original Filing with respect to Item 8, "Financial Statements and Supplementary Data." As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), new certifications of our principal executive officer and principal financial officer are also being filed as exhibits 31.1, 31.2 and 32.1 to this Amendment. Similarly, revised XBRL exhibits are being filed as exhibits to this Amendment. As a result, Item 15, "Exhibits and Financial Statement Schedules", has also been modified. In addition, the consents filed as Exhibit 23.1 and Exhibit 23.2 to this Amendment are dated as of the filing date of this Amendment.

This Amendment does not reflect events occurring after the filing of the Original Filing or modify or update any related other disclosures and should be read in conjunction with the Original Filing made with the Securities and Exchange Commission.

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PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this item is contained in the financial statements listed in Item 15. “Exhibits and Financial Statement Schedules” of this Amendment.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1). Financial Statements.

Included in Part II of this Amendment:

(a)(2). Financial Statement Schedules.

We have omitted certain other financial statement schedules because they are not required or are not applicable, or the required information is shown in the financial statements or notes to the financial statements. We have included Schedule I - Condensed Financial Information of the Registrant and Schedule II - Valuation and Qualifying Accounts.

(a)(3). Exhibits.

Exhibit Number	Exhibit Description
2.1	Amended and Restated Equity Purchase Agreement by and among AGS Capital, LLC, AGS Holdings, LLC and AP Gaming Acquisition, LLC, dated December 3, 2013.
2.2	Stock Purchase Agreement, dated as of March 30, 2015, by and among AGS, LLC, Amaya Inc. and Cadillac Jack, Inc.
2.3	Plan of Conversion, dated December 13, 2017
3.1	Third Amended and Restated Certificate of Incorporation of AP Gaming Holdco, Inc.
3.2	Amended and Restated Bylaws of AP Gaming Holdco, Inc.
3.3	Certificate of Conversion, as filed with the Secretary of State of the State of Delaware on December 13, 2017
3.4	Articles of Conversion, as filed with the Secretary of State of the State of Nevada on December 13, 2017
3.5	Articles of Incorporation, as filed with the Secretary of State of the State of Nevada on December 13, 2017
3.6	Bylaws, effective December 13, 2017
4.1	Note Purchase Agreement, dated as of May 29, 2015, by and among AP Gaming Holdco, Inc., AP Gaming Holdings, LLC, as subsidiary guarantor, Deutsche Bank AG, London Branch, as purchaser and Deutsche Bank Trust Company Americas, as collateral agent.
4.2	PIK Promissory Note, dated as of May 29, 2015, by and between AP Gaming Holdco, Inc. and Amaya Inc.
4.3	Amended and Restated Note Purchase Agreement, dated as of May 30, 2017, among AP Gaming Holdco, Inc., as issuer, AP Gaming Holdings, LLC, as subsidiary guarantor, Deutsche Bank AG, London Branch, as holder, and Deutsche Bank Trust Company Americas, as collateral agent.
10.1	2014 Managerial Incentive Plan.

10.2	First Lien Credit Agreement dated as of December 20, 2013, among AP Gaming Holdings, LLC, as Holdings, AP Gaming I, LLC, as Borrower, the lenders party thereto, Citicorp North America, Inc., as Administrative Agent, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Nomura Securities International, Inc., as Joint Lead Arrangers and Joint Bookrunners, Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Nomura Securities International, Inc., as Co-Syndication Agents, and Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc. and Nomura Securities International, Inc., as Co-Documentation Agents.
10.3	Collateral Agreement dated and effective as of December 20, 2013, among AP Gaming I, LLC, each Subsidiary Party party thereto and Citicorp North America, Inc., as Collateral Agent.
10.4	Holdings Guarantee and Pledge Agreement dated and effective as of December 20, 2013, between AP Gaming Holdings, LLC, as Holdings and Citicorp North America, Inc., as Agent.
10.5	Subsidiary Guarantee dated and effective as of December 20, 2013, by and among each Subsidiary party thereto and Citicorp North America, Inc., as Collateral Agent.
10.6	Securityholders Agreement, dated April 28, 2014, by and between AP Gaming Holdco, Inc., Apollo Gaming Holdings, L.P. and David Lopez.
10.7	AP Gaming Holdco, Inc. 2014 Long-Term Incentive Plan.
10.8	Form of Option Agreement.
10.9	Form of Subscription Agreement.
10.10	Incremental Assumption Agreement, dated as of May 29, 2015, by and among AP Gaming Holdings, LLC, AP Gaming I, LLC, each subsidiary loan party listed on the signature pages thereof, Citicorp North America, Inc. and the lenders from time to time party thereto.
10.11	Incremental Assumption Agreement, dated as of June 1, 2015, by and among AP Gaming Holdings, LLC, AP Gaming I, LLC, each subsidiary loan party listed on the signature pages thereof, Citicorp North America, Inc. and the lenders from time to time party thereto.
10.12	Subscription Agreement Between Apollo Gaming Holdings, L.P. and AP Gaming Holdco, Inc.
10.13	Employment Agreement, dated April 28, 2014, by and between David Lopez and AP Gaming Holdco, Inc .
10.14	Nonqualified Stock Option Agreement, dated April 28, 2014, by and between AP Gaming Holdco, Inc. and David Lopez.
10.15	Restricted Stock Agreement, dated April 28, 2014, by and between AP Gaming Holdco, Inc. and David Lopez.
10.16	Employment Agreement, dated as of July 1, 2015, by and between AGS, LLC and Sigmund Lee.
10.17	First Amendment to the July 1, 2015 Employment Agreement, dated as of January 14, 2016, by and between AGS, LLC and Sigmund Lee.
10.18	Nonqualified Time-Based Stock Option Agreement, dated July 17, 2015, by and between AP Gaming Holdco, Inc. and Sigmund Lee.
10.19	Nonqualified Performance-Based Stock Option Agreement, dated July 17, 2015, by and between AP Gaming Holdco, Inc. and Sigmund Lee.
10.20	Nonqualified Stock Option Agreement, dated January 18, 2016, by and between AP Gaming Holdco, Inc. and Sigmund Lee.
10.21	Employment Agreement, dated February 23, 2015, by and between Kimo Akiona and AGS, LLC.
10.22	Nonqualified Stock Option Agreement, dated March 11, 2015, by and between AP Gaming Holdco, Inc. and Kimo Akiona.
10.23	First Lien Credit Agreement, dated as of June 6, 2017, among AP Gaming Holdings, LLC, as Holdings, AP Gaming I, LLC, as Borrower, the lenders party thereto, Jefferies Finance LLC, as Administrative Agent, Jefferies Finance LLC and Macquarie Capital (USA) Inc., as Joint Lead Arrangers and Joint Bookrunners, and Apollo Global Securities, LLC, as Co-Manager.
10.24	Incremental Assumption Agreement, dated as of December 6, 2017, by and among AP Gaming Holdings, LLC, AP Gaming I, LLC, each subsidiary loan party listed on the signature pages thereof, Jefferies Finance LLC and the lenders from time to time party thereto.

10.25	Collateral Agreement among AP Gaming, LLC, each Subsidiary Party and Jefferies Finance, LLC, dated as of June 6, 2017.
10.26	Holdings Guarantee and Pledge Agreement, by and among AP Gaming Holdings, LLC and Jefferies Finance LLC, dated as of June 6, 2017.
10.27	Subsidiary Guarantee between AP Gaming II, Inc., AP Gaming Acquisition, LLC, AGS Capital, LLC, AGS LLC, AGS Partners, LLC, AGS Illinois, LLP, AP Gaming NV, LLC and Jefferies Finance, LLC dated as of June 6, 2017.
10.28	Form of Amended and Restated Securityholders Agreement, by and among Apollo Gaming Holdings, L.P., AP Gaming VoteCo, LLC, PlayAGS, Inc. (f/k/a AP Gaming Holdco, Inc.) and the other Holders party thereto.
10.29	Form of Stockholders Agreement, by and among PlayAGS, Inc., Apollo Gaming Holdings, L.P. and AP Gaming VoteCo, LLC
10.30	Form of Irrevocable Proxy of AP Gaming VoteCo, LLC
16.1	Letter from Ernst & Young LLP to the Securities and Exchange Commission dated July 11, 2016, pursuant to Section 304(a)(3) of Regulation S-K of the rules and regulations of the Securities and Exchange Commission.
21.1	Subsidiaries of AP Gaming Holdco, Inc.
23.1 *	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.
23.2 *	Consent of Ernst & Young LLP, independent registered public accounting firm.
31.1 *	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 *	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.IN *	XBRL Instance Document
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document

* Exhibit filed with this report

SIGNATURES

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

PLAYAGS, INC.

Date:	March 30, 2018	By:	/s/ KIMO AKIONA
		Name:	Kimo Akiona
		Title:	Chief Financial Officer, Chief Accounting Officer and Treasurer, *(Principal Financial and Accounting Officer)*

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

Signature	Title	Date
/s/ DAVID LOPEZ David Lopez	*Chief Executive Officer, President and Director (Principal Executive Officer)*	March 30, 2018
/s/ KIMO AKIONA Kimo Akiona	*Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial and Accounting Officer)*	March 30, 2018
/s/ DAVID SAMBUR David Sambur	*Director*	March 30, 2018
/s/ DANIEL COHEN Daniel Cohen	*Director*	March 30, 2018
/s/ ERIC PRESS Eric Press	*Director*	March 30, 2018
/s/ YVETTE E. LANDAU Yvette E. Landau	*Director*	March 30, 2018
/s/ ADAM CHIBIB Adam Chibib	*Director*	March 30, 2018

ITEM 1. FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PlayAGS, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statement of operations and comprehensive loss, of changes in stockholders' equity, and of cash flows for each of the two years in the period ended December 31, 2017, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the two years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ PricewaterhouseCoopers LLP
Las Vegas, Nevada
March 14, 2018

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows of PlayAGS, Inc. (formerly AP Gaming Holdco, Inc.) (the Company) for the year ended December 31, 2015. Our audit also included the financial statement schedules listed in the Index at item 15(a)2. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of PlayAGS, Inc.'s operations and its cash flows for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP
Las Vegas, Nevada

March 9, 2016, except for Note 16 - Subsequent events - Stock Split, as to which the date is March 14, 2018

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

	December 31,	
	2017	**2016**
Assets		
Current assets		
Cash and cash equivalents	$ 19,242	$ 17,977
Restricted cash	100	100
Accounts receivable, net of allowance of $1,462 and $1,972 respectively	32,776	24,035
Inventories	24,455	10,729
Prepaid expenses	2,675	2,609
Deposits and other	3,460	3,052
Total current assets	82,708	58,502
Property and equipment, net	77,982	67,926
Goodwill	278,337	251,024
Intangible assets	232,287	232,877
Deferred tax asset	1,115	9
Other assets	24,813	23,754
Total assets	$ 697,242	$ 634,092
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 11,407	$ 8,790
Accrued liabilities	24,954	17,702
Current maturities of long-term debt	7,359	6,537
Total current liabilities	43,720	33,029
Long-term debt	644,158	547,238
Deferred tax liability - noncurrent	1,016	6,957
Other long-term liabilities	36,283	30,440
Total liabilities	725,177	617,664
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock at $0.01 par value; 100,000 shares authorized, no shares issued and outstanding	—	—
Common stock at $0.01 par value; 46,629,155 shares authorized; 23,208,076 Shares issued and outstanding at December 31, 2017 and 2016.	149	149
Additional paid-in capital	177,276	177,276
Accumulated deficit	(201,557)	(156,451)
Accumulated other comprehensive (loss) income	(3,803)	(4,546)
Total stockholders' equity	(27,935)	16,428
Total liabilities and stockholders' equity	$ 697,242	$ 634,092

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

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

	Year ended December 31, 2017	2016	2015
Revenues			
Gaming operations	$ 170,252	$ 154,857	$ 117,013
Equipment sales	41,703	11,949	6,279
Total revenues	211,955	166,806	123,292
Operating expenses			
Cost of gaming operations (1)	31,742	26,736	23,291
Cost of equipment sales (1)	19,847	6,237	1,548
Selling, general and administrative	44,015	46,108	40,088
Research and development	25,715	21,346	14,376
Write downs and other charges	4,485	3,262	11,766
Depreciation and amortization	71,649	80,181	61,662
Total operating expenses	197,453	183,870	152,731
Income (loss) from operations	14,502	(17,064)	(29,439)
Other expense (income)			
Interest expense	55,511	59,963	41,642
Interest income	(108)	(57)	(82)
Loss on extinguishment and modification of debt	9,032	—	—
Other expense (income)	(2,938)	7,404	3,635
Loss before income taxes	(46,995)	(84,374)	(74,634)
Income tax benefit (expense)	1,889	3,000	36,089
Net loss	(45,106)	(81,374)	(38,545)
Foreign currency translation adjustment	743	(2,735)	(2,099)
Total comprehensive loss	$ (44,363)	$ (84,109)	$ (40,644)
Basic and diluted loss per common share:			
Basic	$ (1.94)	$ (3.51)	$ (1.92)
Diluted	$ (1.94)	$ (3.51)	$ (1.92)
Weighted average common shares outstanding:			
Basic	23,208	23,208	20,079
Diluted	23,208	23,208	20,079

(1) exclusive of depreciation and amortization

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

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

	PlayAGS, Inc.				
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance at January 1, 2015	100	$ 99,900	$ (36,532)	$ 288	$ 63,756
Net loss	—	—	(38,545)	—	(38,545)
Foreign currency translation adjustment	—	—	—	(2,099)	(2,099)
Issuance of common stock	49	77,376	—	—	77,425
Balance at December 31, 2015	149	177,276	(75,077)	(1,811)	100,537
Net loss	—	—	(81,374)	—	(81,374)
Foreign currency translation adjustment	—	—	—	(2,735)	(2,735)
Issuance of common stock	—	—	—	—	—
Balance at December 31, 2016	149	177,276	(156,451)	(4,546)	16,428
Net loss	—	—	(45,106)	—	(45,106)
Foreign currency translation adjustment	—	—	—	743	743
Balance at December 31, 2017	149	$ 177,276	$ (201,557)	$ (3,803)	$ (27,935)

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

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

	Year ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net loss	$ (45,106)	$ (81,374)	$ (38,545)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	71,649	80,181	61,662
Accretion of contract rights under development agreements and placement fees	4,680	4,702	496
Amortization of deferred loan costs and discount	2,976	3,542	2,446
Payment-in-kind interest capitalized	15,935	15,396	8,507
Payment-in-kind interest payments	(2,698)	—	—
Write off of deferred loan cost and discount	3,294	—	—
Provision (benefit) for bad debts	651	2,290	106
Imputed interest income	—	—	(18)
Loss on disposition of assets	3,901	1,149	1,439
Impairment of assets	584	4,749	4,989
Benefit of deferred income tax	(7,062)	(7,998)	(38,645)
Changes in assets and liabilities that relate to operations:			
Accounts receivable	(8,348)	(3,191)	(342)
Inventories	(1,636)	307	1,144
Prepaid expenses	(599)	2,021	(1,466)
Deposits and other	(374)	(315)	11,531
Other assets, non-current	(2,290)	467	869
Accounts payable and accrued liabilities	8,451	12,567	(4,770)
Net cash provided by (used in) operating activities	44,008	34,493	9,403
Cash flows from investing activities			
Business acquisitions, net of cash acquired	(63,850)	—	(374,347)
Collection of notes receivable	—	—	323
Purchase of intangible assets	(1,226)	(1,311)	(6,102)
Software development and other expenditures	(7,664)	(6,526)	(6,476)
Proceeds from disposition of assets	514	87	29
Purchases of property and equipment	(48,585)	(32,879)	(15,277)
Net cash used in investing activities	(120,811)	(40,629)	(401,850)
Cash flows from financing activities			
Borrowings under the revolving facility	—	—	11,500
Repayments under the revolving facility	—	—	(21,500)
Proceeds from issuance of first lien credit facilities	448,725	—	369,400
Proceeds from incremental term loans	65,000	—	—
Repayment of senior secured credit facilities	(410,655)	—	—
Payments on first lien credit facilities	(2,413)	(6,987)	(4,743)
Deferred offering costs paid	(653)	—	—
Payment of previous acquisition obligation	—	(1,125)	(10,000)
Payment of license obligation	(128)		
Payment of financed placement fee obligations	(3,807)	(3,516)	—
Repayment of seller notes	(12,401)	—	—
Payments on equipment long term note payable and capital leases	(2,372)	—	—
Repurchase of shares issued to management	—	(50)	(1,277)
Proceeds from issuance of common stock	—	—	77,425
Proceeds from employees in advance of common stock issuance	25	75	579
Payment of deferred loan costs	(3,267)	—	(3,837)
Net cash provided by financing activities	78,054	(11,603)	417,547
Effect of exchange rates on cash and cash equivalents	14	(6)	(58)

Increase (decrease) in cash and cash equivalents	1,265	(17,745)	25,042
Cash and cash equivalents, beginning of period	17,977	35,722	10,680
Cash and cash equivalents, end of period	$ 19,242	$ 17,977	$ 35,722
Supplemental cash flow information:			
Cash paid during the period for interest	$ 35,890	$ 40,060	$ 30,203
Cash paid during the period for taxes	$ 1,157	$ 1,247	$ 840
Non-cash investing and financing activities:			
Non-cash consideration given in business acquisitions	$ 2,600	$ —	$ 17,233
Financed placement fees	$ —	$ —	$ 12,391
Financed purchase property and equipment	$ 368	$ 2,662	$ 5,800
Financed purchase of intangible asset	$ 4,866	$ —	$ —

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

PLAYAGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

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

The Company filed a Registration Statement on Form 10 on December 19, 2013, which went effective under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on December 19, 2013.

Electronic Gaming Machines

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

Table Products

Our table products include live proprietary table products and side-bets, as well as ancillary table products. Products include both internally developed and acquired proprietary table products, side-bets, and table technology related to blackjack, poker, baccarat, craps and roulette. We have acquired a number of popular brands, including *In-Bet, Buster Blackjack, Double Draw Poker* and *Criss Cross Poker* that are based on traditional well-known public domain games such as blackjack and poker; however, these proprietary games provide intriguing betting options that offer more excitement and greater volatility to the player, ultimately enhancing our casino customers' profitability. Our *Tornado* product is unique in that it allows players to control the spin of the roulette ball by pressing a remote ball activation device. We believe this mechanism enhances player interaction without altering traditional roulette rules and procedures; similarly, our *Double Ball Roulette* game creates a unique game experience by allowing players to use two balls instead of one.

Interactive

Our social gaming products are primarily delivered through our mobile apps, *Lucky Play Casino* and *Vegas Fever* . The apps contain several game titles available for consumers to play for fun and with coins that they purchase through the app. Some of our most popular social games include content that is also popular in land-based settings such as *Colossal Diamonds* , *So Hot* , and *Monkey in the Bank* .

Principles of Consolidation

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

Use of Estimates

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

Revenue Recognition

Gaming Operations

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

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

The majority of the Company's leases require the Company to provide maintenance throughout the entire term of the lease. In some cases, a performance guarantee exists that, if not met, provides the customer with the right to return the gaming machines to the Company. This performance guarantee is considered a cancellation clause, a provision which renders their contracts effectively month-to-month contracts. Accordingly, the Company accounts for these contract in a similar manner with its other operating leases as described above. Whether contractually required or not, the Company develops and provides new gaming titles throughout the life of the lease. Certain arrangements require a portion of the win per day to be retained by the customer to fund facility-specific marketing, advertising and promotions. These amounts retained by the customer reduce the monthly revenue recognized on each arrangement.

Gaming operations revenue is also earned from the licensing of table product content and is earned and recognized on a fixed monthly rate. Our social gaming products earn revenue from the sale of virtual coins or chips, which is recorded when the purchased coins or chips are used by the customer.

Equipment Sales

Revenues from the stand-alone product sales or separate accounting units are recorded when:

- Pervasive evidence of an arrangement exists;
- The sales price is fixed and determinable;
- Delivery has occurred and services have been rendered; and
- Collectability is reasonably assured.

Equipment sales are generated from the sale of gaming machines and licensing rights to game content software that is installed in the gaming machine, parts, and other ancillary equipment. Also included within the deliverables are delivery, installation and training, all of which occur within a few days of arriving at the customer location. Gaming equipment sales do not include maintenance beyond a standard warranty period. The recognition of revenue from the sale of gaming devices occurs as title and risk of loss have passed to the customer and all other revenue recognition criteria have been satisfied. As the combination of game content software and the tangible gaming device function together to deliver the product’s essential functionality, revenue from the sale of gaming devices is recognized under U.S. GAAP revenue recognition guidance.

The Company enters into revenue arrangements that may consist of multiple deliverables of its products.
For example, gaming equipment arrangements may include the sale of gaming machines and game content conversion kits.

Revenue associated with arrangements with multiple deliverables is allocated to separate units of accounting if (1) the deliverables have value to the customer on a stand-alone basis or (2) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Company.

At the inception of a multiple element arrangement, fees under the arrangement are allocated to deliverables based on their relative selling price. When applying the relative selling price method, a hierarchy is used for estimating the selling price based first on vendor-specific objective evidence (“VSOE”), then third-party evidence (“TPE”) and finally management’s estimate of the selling price (“ESP”). Revenue for each unit of accounting is recognized when the relevant recognition criteria for each respective element has been met.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash amounts represent funds held in escrow as collateral for the Company’s surety bonds for various gaming authorities and funds held to ensure the availability of funds to pay wide-area progressive jackpot awards.

Receivables, Allowance for Doubtful Accounts

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

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

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

	Allowance for Accounts Receivables Year ended December 31, 2016			
	Beginning Balance	Charge-offs	Provision	Ending Balance
Allowance for doubtful accounts	$ 113	$ (431)	$ 2,290	$ 1,972

	Allowance for Accounts Receivables Year ended December 31, 2015			
	Beginning Balance	Charge-offs	Provision	Ending Balance
Allowance for doubtful accounts	$ 29	$ (22)	$ 106	$ 113

Inventories

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

Property and Equipment

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

Gaming equipment	3 to 6 years
Other property and equipment	3 to 6 years

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

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

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

Intangible Assets

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

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

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

Costs of Capitalized Computer Software

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

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

Goodwill

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

Acquisition Accounting

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

Fair Value of Financial Instruments

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

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

The carrying values of the Company's cash and cash equivalents, restricted cash, receivables and accounts payable approximate fair value because of the short term maturities of these instruments. The fair value of our long-term debt is based on the quoted market prices for similar issues (Level 2 inputs). The estimated fair value of our long-term debt was $675.7 million and $557.8 million as of December 31, 2017 and 2016 , respectively.

Accounting for Income Taxes

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

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

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

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

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

On December 22, 2017, President Trump signed the Tax Act into law, which significantly reformed the Internal Revenue Code of 1986, as amended. The new legislation, among other things, changed the U.S. federal tax rates (including permanently reducing the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate), allowed the expensing of capital expenditures, and put into effect the migration from a “worldwide” system of taxation to a territorial system. The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact of the Tax Act on our consolidated financial statements may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act.

Contingencies

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and cash equivalents and accounts receivable, net. Cash equivalents are investment-grade, short-term debt instruments consisting of treasury bills which are maintained with high credit quality financial institutions under repurchase agreements. Cash and cash equivalents are in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance limits. As of December 31, 2017 and 2016 , the Company did not have cash equivalents.

Revenue from gaming operations is concentrated in the Class II gaming and casino industry, primarily located in Oklahoma and Alabama. For the years ended December 31, 2017 , 2016 and 2015 , approximately 11% , 15% and 20% of our total revenues were derived from one customer, respectively. Another customer accounted for approximately 11% of our total revenues for the year ended December 31, 2017 , with no concentrations noted for the years ended December 31, 2016 and 2015. For the year ended December 31, 2017 and 2016, approximately 11% and 10% of our total revenues were derived in Mexico, respectively. For the year ended December 31, 2015, the company did not have a concentration of revenue from Mexico exceeding 10%. The Company had one customer with accounts receivable, net equaling approximately 10% of total outstanding accounts receivable, net at December 31, 2016 and none at December 31, 2017 and 2015.

Foreign Currency Translation

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2017 , 2016 and 2015 were $0.7 million , $0.7 million and $0.2 million , respectively.

Research and Development

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

Recently Issued Accounting Pronouncements

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

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period* . The amendments clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The Company adopted the guidance in the current year and it did not have a material effect on our financial condition, results of of operations or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory* . ASU 2015-11 changes the criteria for measuring inventory within the scope of the ASU. Inventory will now be measured at net realizable value, while the concept of market value will be eliminated. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. This ASU did not have a material effect on our financial condition, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* . ASU 2016-02 intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is expected to result in a significant portion of our operating leases, where we are the lessee, to be recognized on our Consolidated Balance Sheets. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with earlier adoption permitted. The Company is currently evaluating the provisions of the amendment and the impact on its future consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)* . ASU 2016-15 intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the provisions of ASU 2016-15 to have a material effect on our financial condition, results of operations or cash flows.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740).* ASU 2016-16 requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company early adopted ASU 2016-16 in its first quarter of 2017 utilizing the modified retrospective transition method. The adoption did not have a material effect on our financial condition, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* . The new guidance clarifies the definition of a business in order to allow for the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350)* : Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new amendments, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. We adopted this guidance prospectively at the beginning of first quarter 2017, which will simplify our future goodwill impairment testing.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive (Topic 220)* : Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 requires the remeasurement of deferred tax assets and liabilities as a result of a change in tax laws or rates to be presented in net income from continuing operations. Adjusting temporary differences originally recorded to AOCI through continuing operations may result in disproportionate tax effects ultimately being lodged in AOCI. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of adopting this guidance.

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

NOTE 2. ACQUISITIONS

Rocket Gaming Systems

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

We have recorded the Rocket assets acquired and liabilities assumed based on our estimates of their fair values at the acquisition date. The determination of the fair values of the assets acquired and liabilities assumed (and the related determination of estimated lives of depreciable and amortizable tangible and identifiable intangible assets) requires significant judgment and estimates. The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates that reflect risk inherent in the future cash flows. The estimated fair values of the Rocket assets acquired and liabilities assumed and resulting goodwill are subject to adjustment as we finalize our fair value analysis. The significant items for which a final fair value has not been determined as of the filing of this report on Form 10-K include the fair value of property and equipment and intangible assets. We expect to complete our fair value determinations no later than one year from acquisition date. We do not currently expect our fair value determinations to change; however, there may be differences compared to those amounts reflected in our consolidated financial statements as we finalize our fair value analysis and such changes could be material.

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

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

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

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

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

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

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

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

	From December 6, 2017 through December 31, 2017	
Revenue	$	1,139
Net income	$	203

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

In Bet Gaming

During the quarter ended September 30, 2017, the Company acquired certain intangible assets related to the purchase of table games and table game related intellectual property from In Bet Gaming (“In Bet”). The acquisition was accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our preliminary estimates of their fair values at the acquisition date. The estimated fair values of assets acquired and liabilities assumed and resulting goodwill are subject to adjustment as we finalize our fair value analysis. The significant items for which a final fair value has not been determined as of the filing of this report on Form 10-K include the fair value of intangible assets. We expect to complete our fair value determinations no later than one year from acquisition date. We attribute the goodwill acquired to our ability to commercialize the products over our distribution and sales network, opportunities for synergies, and other strategic benefits. Total consideration of $9.6 million included an estimated $2.6 million of contingent consideration that is payable upon the achievement of certain targets and periodically based on a percentage of product revenue earned on the purchased table games. The consideration was allocated primarily to tax deductible goodwill for $3.2 million and intangible assets of $5.5 million , which will be amortized over a weighted average period of approximately 9 years .

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

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

Intellectual Property Acquisitions

During the quarter ended September 30, 2015, the Company acquired certain intangible assets related to the purchase of table products and table product related intellectual property. Some of the acquisitions were accounted for as an acquisition of a business and the assets acquired and liabilities assumed were measured based on our preliminary estimates of their fair values at the acquisition dates. The total consideration of $10.0 million includes an estimated $1.5 million of contingent consideration that is payable periodically based on a percentage of product revenue earned on the related table products. The amount of the contingent consideration recorded was estimated at the purchase date and is subject to change based on changes in the estimated product revenue and has been recorded in other long-term liabilities in the consolidated balance sheet. The consideration was allocated primarily to goodwill for $3.4 million and intangible assets for $5.7 million , which will be amortized over a weighted average period of 8.5 years .

Gamingo Limited

On June 15, 2015, the company purchased 100% of the equity of Gamingo Limited (formerly known as “RocketPlay”, currently known as “AGSi”), a leading gaming company developing social casino titles for mobile devices. With primary offices in San Francisco and Tel Aviv, AGSi’s flagship product, Lucky Play Casino, gives players a casino-quality experience with EGMs, table products, tournaments, and live events. The total consideration of $8.8 million included an estimated $5.0 million of contingent consideration payable based on the operating results of AGSi during a twelve-month measurement period that ended in December 2016. The amount of the contingent consideration recorded was estimated at the purchase date and was recorded in other long-term liabilities in the consolidated balance sheet. As of December 31, 2015 the recorded value of the contingent consideration was written off in full (included in write downs and other charges) based on the estimated fair value on that date.

We have recorded AGSi’s assets acquired and liabilities assumed based on our estimates of their fair values at the acquisition date. The allocation of the consideration given was allocated to the estimated fair values of the assets acquired and the liabilities assumed, which primarily included $4.9 million of goodwill and $4.2 million of identifiable intangible assets to be amortized over a weighted average period of 3 years .

Cadillac Jack

On May 29, 2015, the Company acquired 100% of the equity of Amaya Americas Corporation ("Cadillac Jack"), a leading provider of Class II gaming machines for the North American tribal gaming market, with key regions of operation within Alabama, Mexico, and Wisconsin. This acquisition is expected to create growth opportunities in Class II and Class III jurisdictions and expands the Company's geographic footprint with an EGM installed base of approximately 10,500 units. The combined management teams are complementary and possess years of combined experience that is expected to allow us to effectively grow and improve our business.

The acquisition was funded primarily from cash proceeds of incremental borrowings on our existing term loans, the issuance of senior secured PIK notes, as described in Note 6, and the issuance of additional common stock, as described in Note 7. The consideration also included a promissory note to the seller, Amaya Inc., for $12.0 million , as described in Note 6, as well as a contingent receivable that was recorded at its estimated fair value on the date of the acquisition. The contingent receivable is related to a clause in the stock purchase agreement allowing for a refund of up to $25.0 million if certain deactivated gaming machines in Mexico are not in operation by November 29, 2016. As of December 31, 2016, the estimated fair value of the contingent receivable is recorded in other long-term assets. In the first quarter of 2017, the Company reached an agreement with Amaya, Inc. to receive $5.1 million for this contingent receivable.

The following summarizes the consideration paid for Cadillac Jack (in thousands):

Contractual cash purchase price adjusted for working capital	$	369,760
Seller note		12,000
Contingent receivable		(1,300)
Total consideration	$	380,460

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

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

	At May 29, 2015	
Currents assets [1]	$	34,871
Property and equipment		29,634
Goodwill		171,497
Intangible assets		199,752
Other long-term assets		23,828
Total assets		459,582
Current liabilities		8,636
Deferred tax liability non-current		51,486
Other long-term liabilities		19,000
Total equity purchase price	$	380,460

[1] Current assets includes $4.2 million of cash acquired.

Based on our estimates, the total consideration exceeded the aggregate estimated fair value of the acquired assets and assumed liabilities at the acquisition date and has been recorded as goodwill. We attribute this goodwill to our enhanced financial scale and geographic diversification, opportunities for synergies, assembled workforce and other strategic benefits. None of the goodwill associated with the acquisition is deductible for income tax purposes and, as such, no deferred taxes have been recorded related to goodwill.

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We included an estimated value of $8.3 million in current assets above and in deposits and other in the consolidated balance sheet related to the value of stock options held by employees of Cadillac Jack. The stock options entitled the holder to purchase shares of Amaya Inc., the former global parent of Cadillac Jack, based on the holder's continued employment at Cadillac Jack through the vesting date, which was November 29, 2015.

Our estimates of the fair values of depreciable tangible assets are as follows (in thousands):

	Fair values at May 29, 2015	Average remaining useful life (in years)
Gaming equipment	$ 23,065	1 - 5
Other property and equipment	6,569	2 - 3
Total property and equipment	$ 29,634	

Our estimates of the fair values of identifiable intangible assets are as follows (in thousands):

	Fair values at May 29, 2015	Average remaining useful life (in years)
Trade names	$ 3,000	5
Brand names	10,600	3 - 5
Customer relationships	107,000	5 - 12
Gaming software and technology platforms	79,152	2 - 7
Total intangible assets	$ 199,752	

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

The estimated fair values of acquired trade names, brand names and gaming technology platforms was primarily determined using the royalty savings method, which is a risk-adjusted discounted cash flow approach. The gaming technology platforms include $30.0 million of in-process research and development. The royalty savings method values an intangible asset by estimating the royalties saved through ownership of the asset. The royalty savings method requires identifying the future revenue that would be impacted by the trade name or intellectual property (or royalty-free rights to the assets), multiplying it by a royalty rate deemed to be avoided through ownership of the asset and discounting the projected royalty savings amounts back to the acquisition date. The royalty rate used in such valuation was based on a consideration of market rates for similar categories of assets.

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

The estimated fair value of deferred income taxes was determined by applying the appropriate enacted statutory tax rate to the temporary differences that arose on the differences between the financial reporting value and tax basis of the assets acquired and liabilities assumed. We recorded liabilities for estimated uncertain tax positions in other long-term liabilities and a related indemnification receivable in other long-term assets.

The revenue and net loss of Cadillac Jack from the acquisition date through December 31, 2015, are presented below and are included in our consolidated statements of operations and comprehensive loss. These amounts are not necessarily indicative of the results of operations that Cadillac Jack would have realized if it had continued to operate as a stand-alone company during the period presented, primarily due to the elimination of certain headcount and administrative costs since the acquisition date resulting from integration activities or due to costs that are now reflected in our unallocated corporate costs and not allocated to Cadillac Jack.

	From May 29, 2015 through December 31, 2015
Revenue	$ 46,075
Net loss	$ 17,133

The following unaudited pro forma statements of operations give effect to the Cadillac Jack acquisition as if it had been completed on January 1, 2014. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of what the operating results actually would have been during the periods presented had the acquisition been completed on January 1, 2014. In addition, the unaudited pro forma financial information does not purport to project future operating results. This information is preliminary in nature and subject to change based on final purchase price adjustments. The pro forma statements of operations do not reflect: (1) any anticipated synergies (or costs to achieve synergies) or (2) the impact of non-recurring items directly related to the Cadillac Jack acquisition.

	Year ended December 31,	
	2015	2014
Revenue	$ 156,110	$ 160,341
Net loss	$ 54,682	$ 83,709

NOTE 3. PROPERTY AND EQUIPMENT

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

	December 31, 2017	December 31, 2016
Gaming equipment	$ 125,064	$ 108,635
Other property and equipment	17,229	13,900
Less: Accumulated depreciation	(64,311)	(54,609)
Total property and equipment, net	$ 77,982	$ 67,926

Gaming equipment and other property and equipment are depreciated over the respective useful lives of the assets ranging from three to six years. Depreciation expense was $27.2 million , $27.0 million and $23.4 million for the years ended December 31, 2017 , 2016 and 2015 , respectively.

NOTE 4. GOODWILL AND INTANGIBLES

There were no accumulated impairments of goodwill as of December 31, 2017 . Changes in the carrying amount of goodwill are as follows (in thousands):

	Gross Carrying Amount			
	EGM	Table Products	Interactive	Total
Balance at December 31, 2015	$ 246,423	$ 2,600	$ 4,828	$ 253,851
Foreign currency adjustments	(3,627)	—	—	(3,627)
Purchase accounting adjustment	—	800	—	800
Balance at December 31, 2016	242,796	3,400	4,828	251,024
Foreign currency adjustments	855	—	—	855
Acquisition	23,217	3,241	—	26,458
Balance at December 31, 2017	$ 266,868	$ 6,641	$ 4,828	$ 278,337

The Company performed an annual impairment test on each of its reporting units as of October 1, 2017. For the EGM and Table Product reporting units the test resulted in a significant amount of cushion between the fair value and carrying value of these reporting units.

For the Interactive reporting unit, which has a goodwill carrying value of $4.8 million , the Company performed a quantitative, or “Step 1” analysis. In performing the Step 1 goodwill impairment test for our Interactive reporting unit, we estimated the fair value of the Interactive reporting unit using an income approach that analyzed projected discounted cash flows. We used projections of revenues and operating costs with estimated growth rates during the forecast period, capital expenditures and cash flows that considered historical and estimated future results and general economic and market conditions, as well as the estimated impact of planned business and operational strategies. Consistent with the Company’s budgets, the historical results in 2015 and 2016 of this reporting unit have shown a declining adjusted EBITDA, which was expected due to the startup phase of this reporting unit. In 2017 the adjusted EBITDA has improved as a result of a reduction in the amount of expense incurred for marketing and user acquisition activities.In future years, when the business of this reporting unit is expected to generate positive results, the present value of projected cash flows exceeds its carrying value. The estimates and assumptions used in the discounted cash flow analysis included a terminal year long-term growth rate of 4.0% and an overall discount rate of 17% based on our weighted average cost of capital for the Company and premiums for the small size of the reporting unit and forecast risk.

Intangible assets consist of the following (in thousands):

		December 31, 2017			December 31, 2016		
	Useful Life (years)	Gross Value	Accumulated Amortization	Net Carrying Value	Gross Value	Accumulated Amortization	Net Carrying Value
Indefinite lived trade names	Indefinite	$ 12,126	$ —	$ 12,126	$ 12,126	$ —	$ 12,126
Trade and brand names	7	14,730	(7,642)	7,088	13,600	(4,671)	8,929
Customer relationships	7	188,419	(69,564)	118,855	164,258	(48,708)	115,550
Contract rights under development and placement fees	1 - 7	16,834	(9,860)	6,974	16,488	(5,235)	11,253
Gaming software and technology platforms	1 - 7	141,231	(67,189)	74,042	123,596	(49,014)	74,582
Intellectual property	10 - 12	17,180	(3,978)	13,202	12,780	(2,343)	10,437
		$ 390,520	$ (158,233)	$ 232,287	$ 342,848	$ (109,971)	$ 232,877

Intangible assets are amortized over their respective estimated useful lives ranging from one to twelve years. Amortization expense related to intangible assets was $44.4 million , $53.2 million and $38.3 million for the years ended December 31, 2017 , 2016 and 2015 , respectively.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We recorded impairments related to internally developed gaming titles of $0.6 million for the year ended December 31, 2017 . There were no impairments related to internally developed gaming titles for the year ended 2016 . For the year ended December 31, 2015, the Company recognized impairment charges related to internally developed gaming titles of $3.4 million .

The Company enters into development agreements and placement fee agreements with certain customers to secure floor space under lease agreements for its gaming machines. Amounts paid in connection with the development agreements are repaid to the Company in accordance with the terms of the agreement, whereas placements fees are not reimbursed. For development agreements in the form of a loan, interest income is recognized on the repayment of the notes based on the stated rate or, if not stated explicitly in the development agreement, on an imputed interest rate. If the stated interest rate is deemed to be other than a market rate or zero, a discount is recorded on the note receivable as a result of the difference between the stated and market rate and a corresponding intangible asset is recorded. The intangible asset is recognized in the financial statements as a contract right under development agreement and amortized as a reduction in revenue over the term of the agreement. Placement fees can be in the form of cash paid upfront or free lease periods and are accreted over the life of the contract and the expense is recorded as a reduction of revenue. We recorded a reduction of gaming operations revenue from the accretion of contract rights under development agreements and placement fees of $4.7 million , $4.7 million and $0.5 million for the years ended December 31, 2017 , 2016 and 2015 , respectively.

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

	Amortization Expense	Placement Fee Accretion
For the year ended December 31,		
2018	$ 45,867	$ 3,900
2019	40,193	2,617
2020	31,792	25
2021	21,022	7
2022	20,584	—
Thereafter	53,729	425
Total	$ 213,187	$ 6,974

NOTE 5. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	December 31, 2017	December 31, 2016
Salary and payroll tax accrual	$ 9,449	$ 6,594
Taxes payable	2,655	2,128
Accrued interest	—	2
License fee obligation	1,000	—
Placement fees payable	4,000	4,000
Accrued other	7,850	4,978
Total accrued liabilities	$ 24,954	$ 17,702

NOTE 6. LONG-TERM DEBT

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

	December 31, 2017	December 31, 2016
First Lien Credit Facilities:		
Term loans, interest at LIBOR or base rate plus 5.50% (6.85% at December 31, 2017), net of unamortized discount of $13.4 million at December 31, 2017.	$ 499,173	$ —
Senior secured PIK notes, net of unamortized discount and deferred loan costs of $3.0 million and $3.5 million at December 31, 2017 and December 31, 2016, respectively.	149,588	133,286
Equipment long-term note payable and capital leases	2,756	4,792
Senior secured credit facilities:		
Term loans, interest at LIBOR or base rate plus 8.25%, net of unamortized discount and deferred loan costs of $15.1 million at December 31, 2016.	—	395,581
Seller notes	—	20,116
Total debt	651,517	553,775
Less: Current portion	(7,359)	(6,537)
Long-term debt	$ 644,158	$ 547,238

First Lien Credit Facilities

On June 6, 2017 (the “Closing Date”), AP Gaming I, LLC (the “Borrower”), a wholly owned indirect subsidiary of the Company, entered into a first lien credit agreement, providing for $450.0 million in term loans and a $30.0 million revolving credit facility (the “First Lien Credit Facilities”). The proceeds of the term loans were used primarily to repay the Existing

Credit Facilities (as defined below), the AGS Seller Notes (as defined below) and the Amaya Seller Note (as defined below), to pay for the fees and expenses incurred in connection with the foregoing and otherwise for general corporate purposes.

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

On December 6, 2017, AP Gaming I, LLC (the "Borrower"), a wholly owned indirect subsidiary of the Company, entered into incremental facilities for $65.0 million in term loans. The net proceeds of the Incremental Term Loans were used to finance the acquisition of electronic gaming machines and related assets operated by Rocket described in Note 2, to pay fees and expenses in connection therewith and for general corporate purposes. The Incremental Term Loans have the same terms as the Borrower's existing term loans initially borrowed under the Credit Agreement on June 6, 2017, described above.

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

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

The First Lien Credit Facilities also contain customary affirmative covenants and negative covenants that limit our ability to, among other things: (i) incur additional debt or issue certain preferred shares; (ii) create liens on certain assets; (iii) make certain loans or investments (including acquisitions); (iv) pay dividends on or make distributions in respect of our capital stock or make other restricted payments; (v) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; (vi) sell assets; (vii) enter into certain transactions with our affiliates; (viii) enter into sale-leaseback transactions; (ix) change our lines of business; (x) restrict dividends from our subsidiaries or restrict liens; (xi) change our fiscal year; and (xii) modify the terms of certain debt or organizational agreements. The new senior secured credit facilities also contain customary events of default included in similar financing transactions, including, among others, failure to make payments when due, default under other material indebtedness, breach of covenants, breach of representations and warranties, involuntary or voluntary bankruptcy, and material judgments.

Subsequent to the end of the year, the interest rate on the term loans under the First Lien Credit Agreement was decreased, which is described in Note 16.

Amended and Restated Senior Secured PIK Notes

On May 30, 2017, the Company entered into an amended and restated note purchase agreement (the "A&R Note Purchase Agreement") with AP Gaming Holdings, LLC, as subsidiary guarantor (the "Subsidiary Guarantor"), Deutsche Bank AG, London Branch, as holder (the "Holder"), and Deutsche Bank Trust Company Americas, as collateral agent, which amended and restated the note purchase agreement, dated as of May 29, 2015.

The A&R Note Purchase Agreement governs the Company's previously issued 11.25% senior secured PIK notes (the "Notes"), $115.0 million of which had been issued to the Holder at an issue price of 97% of the principal amount thereof to the Holder in a private placement exempt from registration under the Securities Act of 1933, as amended. The A&R Note Purchase Agreement extends the maturity of the Notes to May 28, 2024 and modifies the terms of the Notes to, among other things, account for the repayment of the AGS Seller Notes and the Amaya Seller Note.

The Notes remain secured by the Company's equity in its subsidiary AP Gaming, Inc., subject to certain limitations including those imposed by gaming laws, and are unconditionally guaranteed by the Subsidiary Guarantor. Interest on the Notes continues to accrue at a rate of 11.25% per annum. The Company may elect to pay interest due on the Notes in cash, by increasing the principal of the outstanding Notes or by issuing new Notes ("PIK interest") for the entire amount of the interest payment or by paying interest partially in cash and partially in PIK interest. Interest on the Notes accrues from the date of issuance and is payable on the dates described in more detail in the A&R Note Purchase Agreement.

The Notes contain limitations on additional indebtedness, guarantees, incurrence of liens, investments and distributions, as defined, some of which were modified in the A&R Note Purchase Agreement. The Notes also contains customary events of default included in similar transactions, including, among others, failure to make payments when due, acceleration of other material indebtedness, breach of covenants, breach of representations and warranties, involuntary or voluntary bankruptcy, and material judgments. At December 31, 2017 , the Notes totaled $149.6 million , which includes capitalized interest of $37.6 million .

Subsequent to the end of the year, senior secured PIK notes were redeemed and paid in full, which is transaction is described in Note 16.

Senior Secured Credit Facilities

On June 6, 2017, the Borrower terminated its senior secured credit facilities (the "Existing Credit Facilities"), dated as of December 20, 2013 (as amended as of May 29, 2015 and as of June 1, 2015 and as amended, restated, supplemented or otherwise modified prior to June 6, 2017), by and among the Borrower, the lenders party thereto from time to time and Citicorp North America, Inc., as administrative agent. In connection with the termination, the Borrower repaid all of the outstanding obligations in respect of principal, interest and fees under the Existing Credit Facilities.

On June 6, 2017, net deferred loan costs and discounts totaling $13.9 million related to the Existing Credit Facilities were capitalized and were being amortized over the term of the agreement. In conjunction with the refinancing, approximately $3.3 million of these deferred loan costs and discounts was written off as a portion of the loss on extinguishment and modification of debt and the remainder of these cost will be amortized over the term of the First Lien Credit Facilities. An additional $9.2 million in loan costs and discounts was incurred related to the issuance of the First Lien Credit Facilities. Given the composition of the lender group, certain lenders were accounted for as a debt modification and, as such, $4.8 million in debt issuance costs related to the First Lien Credit Facilities were expensed and included in the loss on extinguishment and modification of debt, the remaining amount was capitalized and will be amortized over the term of the agreement.

Seller Notes

On June 6, 2017, AP Gaming, Inc., a wholly owned subsidiary of the Company terminated two promissory notes issued by AP Gaming, Inc. to AGS Holdings, LLC, in the initial principal amounts of $2.2 million and $3.3 million , respectively (the "AGS Seller Notes"). The AGS Seller Notes had been issued to the previous owners of the Company's primary operating company. In connection with the termination, the Company caused the repayment all of the outstanding obligations in respect of principal and interest under the AGS Seller Notes.

On the June 6, 2017, the Company terminated a promissory note issued by the Company to Amaya Inc. (the "Amaya Seller Note") with an initial principal amount of $12.0 million . The Amaya Seller Note had been issued to satisfy the conditions set forth in the stock purchase agreement for Cadillac Jack. During the quarter ended March 31, 2017, the Amaya Seller Note was reduced by $5.1 million to settle a clause from the Stock Purchase Agreement allowing for a refund if certain deactivated gaming machines in Mexico were not in operation as of a specified date. In connection with the termination, the Company repaid all outstanding obligations in respect of principal and interest under the Amaya Seller Note.

Equipment Long Term Note Payable and Capital Leases

The Company has entered into a financing agreement to purchase certain gaming devices, systems and related equipment and has entered into leases for servers and equipment that are accounted for as capital leases.

Scheduled Maturities of Long-Term Debt

Aggregate contractual future principal payments (excluding the effects of repayments for excess cash flow) of long-term debt for the years following December 31, 2017 , are as follows (in thousands):

For the year ending December 31,		
2018	$	7,359
2019		5,618
2020		5,235
2021		5,152
2022		5,151
Thereafter [1]		639,453
Total scheduled maturities		667,968
Unamortized debt discount and debt issuance costs		(16,451)
Total debt	$	651,517

[1] Includes $152.6 million future principal payments relating to the Senior secured PIK notes which were paid in full in January 2018.

NOTE 7. STOCKHOLDERS' EQUITY

Common Stock

The Company's common stock consists of two classes: class A voting common stock ("Class A Shares") and class B non-voting common stock ("Class B Shares"). The holders of the Class A Shares are entitled to one vote per share on all matters to be voted on by the stockholders of the Company. The holders of the Class A Shares have no economic rights or privileges, including rights in liquidation, and have no right to receive dividends or any other distributions. The holders of the Class B Shares have no right to vote on any matter to be voted on by the stockholders of the Company. Each holder of Class B Shares is entitled to share equally, share for share, dividends declared, as well as any distributions to the stockholders, and in the event of the Company's liquidation, dissolution or winding up, is entitled to share ratably in any remaining assets after payment of or provision for liabilities and the liquidation on preferred stock, if any.

As of December 31, 2017 , 170,712 Class B Shares issued to "Management Holder," as defined in the Securityholders Agreement dated April 28, 2014 (the "Securityholders Agreement") were outstanding. The Class B Shares were sold to the Management Holder and are not considered issued for accounting purposes as they contain a substantive performance condition, a "Qualified Public Offering," as defined in the Securityholders Agreement, which must be probable for the Management Holder to benefit from the ownership of the shares. As a result, shares issued to the Management Holder are not considered issued for accounting purposes until such time that the performance condition is probable and the Company has recorded a liability in other long-term liabilities of $1.3 million for the proceeds from the sale of the Class B Shares. No share-based compensation expense for Class B Shares has been recognized and none will be recognized for these shares until the performance condition is considered to be probable.

Class B Shares that are held by a Management Holder are subject to repurchase rights (the "Repurchase Rights"), as outlined in Section 6 of the Securityholders Agreement, that are contingent on the Management Holder's termination. The Repurchase Rights enable the Company to recover the Class B Shares issued to a Management Holder without transferring any appreciation of the fair value of the stock to the Management Holder upon certain terminations of the Management Holder's employment prior to a "Qualified Public Offering", as defined in the Securityholders Agreement. If a Management Holder's employment is terminated by the Company prior to the consummation of a Qualified Public Offering for "Cause", as defined in the Securityholders Agreement, or is terminated by such Management Holder without "Good Reason", as defined in the Securityholders Agreement, then the Company shall have the right to repurchase all or any portion of the Class B Shares held by such Management Holder for the lesser of original cost and fair market value. If a Management Holder's employment is terminated by the Company prior to the consummation of a Qualified Public Offering other than as described above and in the Securityholders Agreement, then the Company shall have the right to repurchase all or any portion of the Class B Shares held by such Management Holder for fair market value.

On January 16, 2018, our board adopted and our stockholders approved the 2018 Omnibus Incentive Plan, which is described in Note 16. Also disclosed in Note 16 is the description of the reclassification of Class B shares and the cancellation of Class A shares.

NOTE 8. WRITE DOWNS AND OTHER CHARGES

The Consolidated Statements of Operations and Comprehensive Loss include various non-routine transactions or consulting and transaction-related fees that have been classified as write downs and other charges. During the year ended December 31, 2017, the Company recognized $4.5 million in write-downs and other charges driven by losses from the disposal of assets of $3.2 million , write offs related to prepaid royalties of $0.7 million , the full impairment of certain intangible assets of $0.6 million (level 3 fair value measurement based on projected cash flows for the specific same titles), losses from the disposal of intangible assets of $0.5 million , offset by a fair value adjustment to an acquisition contingent receivable of $0.6 million (level 3 fair value measurements based on projected cash flows). The contingency was resolved in the quarter ending March 31, 2017. See Note 6 to our consolidated financial statements for a detailed discussion regarding the resolution of the contingency described above.

During the year ended December 31, 2016, the Company recognized $3.3 million in write-downs and other charges, driven by a $3.3 million impairment of an intangible asset related to a customer contract that the Company expects will provide less benefit than originally estimated from the Cadillac Jack acquisition (a level 3 fair value measurement based on a decrease in projected cash flows). The value of the intangible asset was written down to $1.1 million at an interim date and subsequently fully amortized by December 31, 2016. Additionally the Company recorded a write-down of long-lived assets of $2.0 million related to older generation gaming machines (level 3 fair value measurement based on projected cash flow for the specific assets) in which the long-lived assets were written down to $0 , and losses from the disposal of assets of $1.0 million . These charges were offset by a $3.0 million fair value adjustment to a contingent consideration receivable related to the Cadillac Jack acquisition (level 3 fair value measurement based on expected and probable future realization of the receivable).

For the year ended December 31, 2015, the Company recognized $11.8 million in write-downs and other charges primarily related to acquisition related charges of $8.2 million . The Company also recognized a full impairment to intangible assets of $3.4 million related to game titles (level 3 fair value measurement based on projected cash flows for the specific game titles), write offs related to prepaid royalties of $1.3 million , losses from the disposal of assets of $1.3 million and the impairment of long-lived assets of $0.2 million (level 3 fair value measurement based on projected cash flow for the specific assets with an estimated fair value of $0), fair value adjustment of $3.4 million to the asset associated with the stock options of Amaya, Inc. described in Note 2 (level 2 fair value measurement primarily based on the stock price of Amaya, Inc. with a final estimated fair value of $4.9 million), partially offset by write downs of primarily contingent consideration of $6.1 million that is described in Note 2 (level 3 fair value measurements based on projected cash flows).

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

NOTE 9. BASIC AND DILUTED LOSS PER SHARE

The Company computes net income (loss) per share in accordance with accounting guidance that requires presentation of both basic and diluted earnings per share (“EPS”) on the face of the consolidated statement of operations and comprehensive income (loss). Basic EPS is computed by dividing net income (loss) for the period by the weighted average number of shares outstanding during the period. Basic EPS excludes Class B Shares issued to Management Holders until the performance condition or termination event is considered probable (see Note 7). Until such time, the Class B Shares issued to Management Holders will be included in the calculation of diluted EPS using the treasury stock method and are treated as stock options. Diluted EPS is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period, increased by potentially dilutive common shares that were outstanding during the period. Diluted EPS excludes all potential dilutive shares if their effect is anti-dilutive. Potentially dilutive common shares include stock options and restricted stock (see Note 11).

There were no potentially dilutive securities for the years ended December 31, 2017 , 2016 and 2015.

Excluded from the calculation of diluted EPS for the years ended December 31, 2017 , 2016 and 2015, were 0.1 million restricted shares. Excluded from the calculation of diluted EPS for the year ended December 31, 2017 were 0.4 million stock options and for the years ended December 31, 2016 and 2015 0.5 million stock options were excluded, as such securities were anti-dilutive.

NOTE 10. BENEFIT PLANS

The Company has established a 401(k) defined contribution plan (the "401(k) Plan") for its employees. The 401(k) Plan allows employees to contribute a portion of their earnings, and the Company may match a percentage of the contributions on a discretionary basis. The expense associated with the 401(k) Plan for the years ended December 31, 2017 , 2016 and 2015 was $1.0 million , $0.9 million and $0.6 million , respectively. The increase in the expense associated with the 401(k) Plan in each year is primarily attributable to increased headcount and participation.

On April 28, 2014, the board of directors of the Company approved the 2014 Long-Term Incentive Plan ("LTIP"). Under the LTIP, the Company is authorized to grant nonqualified stock options, rights to purchase Class B Shares, restricted stock, restricted stock units and other awards to be settled in, or based upon, Class B Shares to persons who are directors and employees of and consultants to the Company or any of its subsidiaries on the date of the grant. The LTIP will terminate ten years after approval by the board. Subject to adjustments in connection with certain changes in capitalization, the maximum number of Class B Shares that may be delivered pursuant to awards under the LTIP is 2,253,735 after giving effect to the 1.5543 - for - 1 stock split consummated on January 30, 2018 in connection with our initial public offering. As of December 31, 2017 , approximately 350,000 shares remain available for issuance.

NOTE 11. SHARE-BASED COMPENSATION

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

Stock Options

The Company has granted stock awards to eligible participants under the LTIP. The stock awards include options to purchase the Company's Class B Shares. These stock options include a combination of service and market conditions, as further described below. In addition, these stock options include a performance vesting condition, a Qualified Public Offering (see Note 7), which was not considered to be probable as of December 31, 2017 . As a result, no share-based compensation expense for stock options has been recognized and none will be recognized for these stock awards until the performance condition is considered to be probable. The amount of unrecognized compensation expense associated with stock options was $7.4 million and for restricted stock was $0.5 million at December 31, 2017. When the performance condition is considered probable, the stock awards will vest in accordance with the underlying service and market conditions.

The Company calculated the grant date fair value of stock options that vest over a service period using the Black Scholes model. For stock options that contain a market condition related to the return on investment that the Company's stockholders achieve, the options were valued using a lattice-based option valuation model. The assumptions used in these calculations are noted in the following table. Expected volatilities are based on implied volatilities from comparable companies. The expected time to liquidity is based on management's estimate. The risk-free rate is based on the U.S. Treasury yield curve for a term equivalent to the estimated time to liquidity. The expected dividend yield is 0% for all stock awards.

	Year Ended December 31,		
	2017	2016	2015
Option valuation assumptions:			
Expected dividend yield	—%	—%	—%
Expected volatility	66%	56%	55%
Risk-free interest rate	1.80%	1.64%	1.69%
Expected term (in years)	6.2	6.3	6.4

Stock option awards represent options to purchase Class B Shares and are granted pursuant to the Company's LTIP, and include options that the Company primarily classifies as Tranche A, Tranche B and Tranche C.

Tranche A options are eligible to vest in equal installments of 20% on each of the first five anniversaries of the date of the grant, subject to continued employment with the Company or its subsidiaries in addition to the performance vesting condition of a Qualified Public Offering described above. In the event of a termination of employment without cause or as a result of death or disability, any such time based options which would have vested on the next applicable vesting date shall become vested, and the remaining unvested time based options shall be forfeited. In addition, upon a Change in Control (as defined in the Company's 2014 Long-Term Incentive Plan), subject to continued employment through the date of the Change in Control, all outstanding unvested time based options shall immediately vest. An initial public offering does not qualify as a Change in Control as it relates to the vesting of stock options.

All other option awards are eligible to vest upon the satisfaction of certain performance conditions (collectively, "Performance Options") in addition to the performance vesting condition of a Qualified Public Offering described above. Tranche B options are eligible to vest based on achievement of an Investor IRR equal to or in excess of 20% , subject to a minimum cash-on-cash return of 2.5 times the Investor Investment (as such terms are defined in the Company's 2014 Long-Term Incentive Plan). Tranche C options are eligible to vest based on achievement of an Investor IRR equal to or in excess of 25% , subject to a minimum cash-on-cash return of 3.0 times the Investor Investment. In the event of a termination of employment without cause or as a result of death or disability, any Performance Options which are outstanding and unvested will remain eligible to vest subject to achievement of such performance targets (without regard to the continued service requirement) until the first anniversary of the date of such termination. As of December 31, 2017 , the Company had 667,565 Performance Options outstanding.

Subsequent to December 31, 2017, the vesting conditions of Tranche B and Tranche C options were modified, which is described in Note 16.

A summary of the changes in stock options outstanding during the year ended December 31, 2017 , is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (years)	Aggregate Intrinsic Value
Options outstanding as of December 31, 2016	1,391,251	$ 8.59		
Granted	349,327	$ 10.23		
Canceled	(96,366)	$ 10.66		
Options outstanding as of December 31, 2017	1,644,212	$ 8.81	7.6	$ 13,460,495

No options expired or were forfeited for the year ended December 31, 2017 .

The following is provided for stock options granted:

	Year Ended December 31,		
	2017	2016	2015
Weighted average grant date fair value	$ 5.31	$ 5.77	$ 4.79

Restricted awards

During the year ended December 31, 2014, the Company granted 77,715 restricted Class B Shares that vest in five equal installments on each of the first five anniversaries of the grant date in addition to the performance vesting condition of a Qualified Public Offering described above. As of December 31, 2017, the Company had 77,715 unvested restricted shares outstanding with a weighted average grant date fair value of $6.43 . No restricted stock was granted, canceled or forfeited during the years ended December 31, 2017 and 2016. This restricted stock includes a service condition and a performance vesting condition (a Qualified Public Offering), which was not considered to be probable of occurring as of December 31, 2017 . As a result, no share-based compensation expense was recognized for the years ended December 31, 2017 , 2016 and 2015 . When the performance condition is considered probable, the stock awards will vest in accordance with the underlying service condition.

NOTE 12. INCOME TAXES

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

	Year ended December 31,		
	2017	2016	2015
Domestic	$ (42,185)	$ (69,020)	$ (66,728)
Foreign	(4,810)	(15,354)	(7,906)
Loss before provision for income taxes	$ (46,995)	$ (84,374)	$ (74,634)

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

	Year ended December 31,		
	2017	2016	2015
Current:			
Federal	$ (250)	$ (958)	$ 932
State	47	113	(10)
Foreign	5,365	5,865	1,424
Total current income tax expense	5,162	5,020	2,346
Deferred:			
Federal	(5,497)	(7,550)	(34,589)
State	(372)	(31)	(2,506)
Foreign	(1,182)	(439)	(1,340)
Total deferred income (benefit) expense	(7,051)	(8,020)	(38,435)
Income tax (benefit) expense	$ (1,889)	$ (3,000)	$ (36,089)

The reconciliation of income tax at the federal statutory rate to the actual effective income tax rate (benefit) is as follows:

	Year ended December 31,		
	2017	2016	2015
Federal statutory rate	(35.0)%	(35.0)%	(35.0)%
Foreign rate differential	1.5 %	2.1 %	0.7 %
Losses of foreign subsidiaries disregarded for US income tax	(2.5)%	(3.2)%	— %
State income taxes, net of federal benefit	(3.0)%	— %	(2.5)%
Nondeductible loan costs	1.4 %	1.9 %	1.5 %
Nondeductible transaction costs	— %	— %	1.6 %
Other differences	(4.0)%	4.2 %	0.4 %
Rate change - impact of the U.S. Tax Cuts and Jobs Act	19.9 %	— %	— %
Repatriation tax - impact of the U.S. Tax Cuts and Jobs Act	4.1 %	— %	— %
Tax credits - impacts of the U.S. Tax Cuts and Jobs Act	(6.0)%	— %	— %
Valuation allowance - impacts of the U.S. Tax Cuts and Jobs Act	(35.3)%	— %	— %
Withholding tax	2.5 %	1.5 %	1.1 %
Tax credits	(2.1)%	(0.7)%	(1.3)%
Uncertain tax positions	7.3 %	1.9 %	0.3 %
Valuation allowance	47.2 %	23.7 %	(15.2)%
Effective tax rate	(4.0)%	(3.6)%	(48.4)%

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

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

	December 31,	
	2017	2016
Deferred tax assets:		
Accrued expenses	$ 624	$ 662
Allowance for bad debt	443	1,175
Payroll accruals	1,732	1,818
Foreign tax credits	11,454	9,541
Net operating loss carryforwards	42,205	47,019
Property and equipment, net	—	1,830
Research and development credits	3,320	1,420
Loan costs and interest	2,551	3,441
Other	1,119	1,654
Total deferred tax assets	63,448	68,560
Valuation allowance	(33,774)	(28,211)
Deferred tax assets, net of valuation allowance	$ 29,674	$ 40,349
Deferred tax liabilities:		
Prepaid expenses and other	$ (359)	$ (512)
Intangible assets	(25,493)	(46,785)
Property and equipment, net	(3,723)	—
Deferred tax liabilities	(29,575)	(47,297)
Net deferred tax assets (liabilities)	$ 99	$ (6,948)

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2017 in certain tax jurisdictions. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of December 31, 2017, a valuation allowance of $33.8 million has been recorded on US and certain foreign deferred tax assets to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

The Company's Mexican customers are required under the U.S.-Mexico tax treaty to withhold 10% of their payments due to the Company for license fees, which can be used as foreign tax credits on the Company's U.S. federal income tax return. The foreign tax credits are not refundable, but can be carried forward for 10 years to offset future tax liability. As of December 31, 2017, the Company has $11.5 million in foreign tax credits which, if unused, will expire in years 2018 through 2027. In addition, the Company has $3.3 million of research and development credits which begin to expire in 2028. A full valuation allowance has been recorded on the foreign tax credits and research and development credits.

The Company has net operating loss ("NOL") carryforwards for U.S. federal purposes of $168.0 million , in foreign jurisdictions of $21.4 million and various U.S. states of $100.9 million . The U.S. federal NOL carryforwards begin to expire in 2031, the foreign NOL carryforwards begin to expire in 2021, and the U.S. state NOL carryforwards begin to expire in 2018.

Utilization of the net operating loss carryforwards and credits may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions. Any annual limitation may result in the expiration of net operating losses and credits before utilization.

The Company has uncertain tax positions with respect to prior tax filings. The uncertain tax positions, if asserted by taxing authorities, would result in utilization of the Company's tax credit and operating loss carryovers. The credit and operating loss carryovers presented as deferred tax assets are reflected net of these unrecognized tax benefits.

The Company had the following activity for unrecognized tax benefits in 2017 and 2016 (amounts in thousands):

	December 31, 2017	December 31, 2016
Balance-beginning of year	$ 30,164	$ 29,523
Acquisitions	—	—
Increases based on tax positions of the current year	2,065	1,005
Decreases due to lapse of statute	(392)	(236)
Increases based on tax positions of the prior years	1,217	1,963
Decreases based on tax positions of the prior years	(4,908)	(664)
Currency translation adjustments	527	(1,427)
Balance-end of year	$ 28,673	$ 30,164

The Company applies a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company recognizes the impact of a tax position in the financial statements when the position is more likely than not of being sustained on audit based on the technical merits of the position.

The total amount of unrecognized tax benefits as of December 31, 2017 was $28.7 million . Of this amount, $13.2 million, if recognized, would be included in our Consolidated Statements of Operations and Comprehensive Loss and have an impact on our effective tax rate. The Company anticipates a reduction of its liability for unrecognized tax benefits of up to $5.1 million before December 31, 2018, primarily related to lapse of statute, all of which would impact our Consolidated Statements of Operations and Comprehensive Loss.

The Company interest and penalties accrued for unrecognized tax benefits in income tax expense. Related to the unrecognized tax benefits noted above, the Company accrued penalties and interest of $2.5 million during 2017 and in total, as of December 31, 2017, has recognized a liability for penalties and interest of $10.9 million .

The Company is subject to taxation and potential examination in the United States and various state and foreign jurisdictions. The Company is currently under a Federal income tax examination by the Internal Revenue Service (IRS) for the 2014, 2015, and 2016 tax years, and under examination in Mexico for the 2008 tax year. The Company believes that adequate amounts have been reserved in these jurisdictions. Generally, all tax years remain subject to examination in the United States and various state jurisdiction due to the Company's NOLs and the 2011 to 2017 tax years remain subject to examination in Mexico. The Company remains subject to possible examination in various other jurisdictions that are not expected to result in material tax adjustments.

The Company entered into an indemnification agreement with the prior owners of Cadillac Jack whereby the prior owners have agreed to indemnify the Company for changes in tax positions by taxing authorities for periods prior to the acquisition. As of December 31, 2017, an indemnification receivable of $18.8 million has been recorded as an other asset in the financial statements. This amount includes the indemnification of the original pre-acquisition tax positions along with any related accrued interest and penalties and is also recorded as a liability for unrecognized tax benefits in other long-term liabilities. The Company concluded that it is probable the indemnification receivable is realizable based on an evaluation of the ability of Cadillac Jack's prior owner, including a review of its public filings, that demonstrates its financial resources are sufficient to support the amount recorded. If the related unrecognized tax benefits are subsequently recognized, a corresponding charge to relieve the associated indemnification receivables would be recognized in our Consolidated Statements of Operations and Comprehensive Loss and have an impact on operating income.

On December 22, 2017, President Trump signed the Tax Act into law, which significantly reformed the Internal Revenue Code of 1986, as amended. The new legislation, among other things, changed the U.S. federal tax rates (including permanently reducing the U.S. corporate income tax rate from a maximum of 35% to a flat 21% % rate), allowed the expensing of capital expenditures, and put into effect the migration from a “worldwide” system of taxation to a territorial system. As a result, we recorded a provisional net benefit of $8.1 million during the fourth quarter of 2017. This amount, which is included in Income tax benefit (expense) in the consolidated financial statements is comprised of a $9.4 million charge resulting from the re-measurement of the Company’s deferred tax assets and liabilities based on the Tax Act’s new corporate tax rate of 21.0% , a $1.9 million million charge for the one-time mandatory deemed repatriation of foreign earnings, a $2.8 million benefit for related foreign tax credits and a $16.6 million benefit related to the reduction in the existing valuation allowance recorded against certain U.S. federal deferred tax assets. The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) that allows for companies to provide provisional amounts for certain income tax effects of the Tax Act for which the company can provide a reasonable estimate. The guidance also addresses the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act, in which case the company would not be expected to provide a provisional amount for those specific items. Additionally, the guidance allows for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company has recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact of the Tax Act on our consolidated financial statements may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, and actions the Company may take as a result of the Tax Act.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases administrative and warehouse facilities and certain equipment under non-cancelable operating leases. Rent expense was $2.3 million , $2.5 million , and $2.0 million for the years ended December 31, 2017 , 2016 and 2015 , respectively.

Future minimum lease payments under these leases in excess of one year as of December 31, 2017 are as follows (in thousands):

For the year ended December 31,		
2018		1,828
2019		2,015
2020		2,075
2021		1,656
2022		1,149
Thereafter		5,449
Total	$	14,172

Other commitments and contingencies

The Company is subject to federal, state and Native American laws and regulations that affect both its general commercial relationships with its Native American tribal customers, as well as the products and services provided to them. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. If a potential loss from any claim or legal proceeding is considered reasonably possible, the Company discloses an estimate of the possible loss or range of possible loss, or a statement that such an estimate cannot be made. There are no matters that meet the criteria for disclosure outlined above. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to their pending claims and litigation and may revise its estimates. Such revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial condition.

NOTE 14. OPERATING SEGMENTS

In the fourth quarter of fiscal year 2016, the Company revised its business segment disclosures to report results by segment in accordance with the “management approach.” The management approach designates the internal reporting used by our chief operating decision maker, who is our Chief Executive Officer, for making decisions and assessing performance of our reportable segments.

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

Segment revenues include leasing, licensing, or selling of products within each reportable segment. Segment adjusted EBITDA includes the revenues and operating expenses from each segment adjusted for depreciation, amortization, write downs and other charges, accretion of placement fees, non-cash stock compensation expense, as well as other costs such as certain acquisitions and integration related costs including restructuring and severance charges; legal and litigation expenses including settlement payments; new jurisdictions and regulatory licensing costs; non-cash charges on capitalized installation and delivery; contract cancellation fees; and other adjustments primarily composed of professional fees incurred by the Company for projects, corporate and public filing compliance and other costs deemed to be non-recurring in nature. Revenues in each segment are attributable to third parties and segment operating expenses are directly associated with the product lines included in each segment such as research and development, product approval costs, product-related litigation expenses, sales commissions and other directly-allocable sales expenses. Cost of gaming operations and cost of equipment sales primarily include the cost of products sold, service, manufacturing overhead, shipping and installation.

Segment adjusted EBITDA excludes other income and expense, income taxes and certain expenses that are managed outside of the operating segments.

The following provides financial information concerning our reportable segments for the years ended December 31:

	2017	2016	2015
Revenues by segment			
EGM	$ 199,931	$ 156,407	$ 119,617
Table Products	4,065	2,674	1,672
Interactive	7,959	7,725	2,003
Total Revenues	211,955	166,806	123,292
Adjusted EBITDA by segment			
EGM	107,785	91,729	66,267
Table Products	(528)	(1,663)	(1,402)
Interactive	(416)	(4,727)	(2,518)
Subtotal	106,841	85,339	62,347
Write downs and other:			
Loss on disposal of long lived assets	3,901	978	1,275
Impairment of long lived assets	1,214	5,295	4,993
Fair value adjustments to contingent consideration and other items	(630)	(3,000)	(2,667)
Acquisition costs	—	(11)	8,165
Depreciation and amortization	71,649	80,181	61,662
Accretion of placement fees (1)	4,680	4,702	496
Non-cash stock compensation	—	—	4,911
Acquisitions & integration related costs including restructuring & severance	2,936	5,411	7,818
Legal & litigation expenses including settlement payments	523	1,565	1,916
New jurisdictions and regulatory licensing costs	2,062	1,315	256
Non-cash charge on capitalized installation and delivery	1,912	1,680	1,441
Non-cash charges and loss on disposition of assets	1,202	2,478	234
Other adjustments	2,890	1,809	1,286
Interest expense	55,511	59,963	41,642
Interest income	(108)	(57)	(82)
Loss on extinguishment and modification of debt	9,032	—	—
Other expense (income)	(2,938)	7,404	3,635
Loss before income taxes	$ (46,995)	$ (84,374)	$ (74,634)

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

The Company's Chief Operating Decision Maker (the "CODM") does not receive a report with a measure of total assets or capital expenditures for each reportable segment as this information is not used for the evaluation of segment performance. The CODM assesses the performance of each segment based on adjusted EBITDA and not based on assets or capital expenditures due to the fact that two of the Company's reportable segments, Table Products and Interactive, are not capital intensive. Any capital expenditure information is provided to the CODM on a consolidated basis. Therefore, the Company has not provided asset and capital expenditure information by reportable segment.

The following provides financial information concerning our operations by geographic area for the years ended December 31 (in thousands):

	Year ended December 31,		
Revenue:	**2017**	**2016**	**2015**
United States	$ 181,743	$ 138,510	$ 110,392
Other	30,212	28,296	12,900
	$ 211,955	$ 166,806	$ 123,292

	Year ended December 31,		
Long-lived assets, end of year:	**2017**	**2016**	**2015**
United States	$ 79,301	$ 70,208	$ 63,858
Other	8,608	5,169	6,909
	$ 87,909	$ 75,377	$ 70,767

NOTE 15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present selected quarterly financial information for 2017 and 2016 , as previously reported (in thousands).

	Quarter ended March 31, 2017	Quarter ended June 30, 2017	Quarter ended September 30, 2017	Quarter ended December 31, 2017
Consolidated Income Statement Data:				
Revenues	$ 47,774	$ 50,080	$ 56,440	$ 57,661
Gross profit [1]	36,451	38,957	42,766	42,192
Income from operations	2,183	2,322	9,136	861
Net (loss) income	(12,386)	(20,110)	(4,090)	(8,520)
Basic loss per share	(0.53)	(0.87)	(0.18)	(0.37)
Diluted loss per share	(0.53)	(0.87)	(0.18)	(0.37)

	Quarter ended March 31, 2016	Quarter ended June 30, 2016	Quarter ended September 30, 2016	Quarter ended December 31, 2016
Consolidated Income Statement Data:				
Revenues	$ 40,235	$ 42,618	$ 41,208	$ 42,745
Gross profit [1]	33,792	32,599	33,799	33,643
Loss from operations	(4,206)	(4,338)	(7,117)	(1,403)
Net (loss) income	(21,066)	(18,839)	(21,235)	(20,234)
Basic income (loss) per share	(0.91)	(0.81)	(0.91)	(0.87)
Diluted income (loss) per share	(0.91)	(0.81)	(0.91)	(0.87)

[1] Gross profit is total revenues less cost of gaming operations and cost of equipment sales, exclusive of depreciation and amortization.

NOTE 16. SUBSEQUENT EVENTS

Tranche B and Tranche C Modification

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

As a result of the modification, the Company measured the incremental fair value of Tranche B and Tranche C options, which resulted in $2.9 million of incremental fair value.

Initial Public Offering

On January 26, 2018, the Company completed the initial public offering of its common stock, in which it issued and sold 10,250,000 shares of common stock at a public offering price of $16.00 per share. The aggregate net proceeds received by the Company from the initial public offering were $149.1 million , after deducting underwriting discounts and commissions and offering expenses payable by the Company.

On February 27, 2018 the Company sold an additional 1,537,500 shares of its common stock, par value $0.01 per share, at a public offering price of $16.00 per share pursuant to the underwriters' exercise in full of the over-allotment option the Company granted to the underwriters in connection with its recently closed initial public offering of 10,250,000 shares of Common Stock. The Company received from the exercise of the over-allotment option net proceeds, after deducting underwriting discounts and commissions, of $23.0 million .

Upon the closing of the initial public offering the performance vesting condition, a Qualified Public Offering (see Note 7), related to the Company's stock awards was considered probable and we recognized a catch up of share-based compensation charge of $7.9 million .

Stock Split

On January 30, 2018 the Company (i) reclassified its existing Class B Shares into a new class of voting common stock, which was the class of stock investors received in the initial public offering, and (ii) cancelled its existing Class A Shares of common stock. Concurrent with this reclassification, and immediately prior to the consummation of the initial public offering, we effected a 1.5543 -for-1 stock split of the Company's new voting common stock such that existing stockholders each received 1.5543 shares of the new voting common stock described above in clause (i) for each share of Class B Shares they held at that time. Accordingly, all share and per share amounts for all periods presented in these financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the stock split.

Omnibus Incentive Plan

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

Repayment of Senior Secured PIK Notes

On January 30, 2018, the Company used the net proceeds of the initial public offering of its shares of common stock and cash on hand to redeem in full its 11.25% senior secured PIK notes due 2024 (the "Notes"). On the redemption date, the aggregate principal amount of the Notes outstanding was $152.6 million and the amount of accrued and unpaid interest was $1.4 million . In connection with the redemption, the Company repaid all of the outstanding obligations in respect of principal, interest and fees under the Notes.

Concurrently with the redemption of the PIK notes, the Company terminated its amended and restated note purchase agreement (the "A&R Note Purchase Agreement"), dated May 30, 2017, among the Company, AP Gaming Holdings, LLC, as subsidiary guarantor, Deutsche Bank AG, London Branch, as holder, and Deutsche Bank Trust Company Americas, as collateral agent, which governed the Notes.

Term Loan Repricing

On February 7, 2018, the Company entered into an Incremental Assumption and Amendment Agreement, which amended and restated the First Lien Credit Agreement, dated as of June 6, 2017, as amended by the Incremental Agreement dated as of December 6, 2017, to reduce the applicable margin for the Term B Loans thereunder by 1.25% . The agreement also provides that any refinancing of the Term B Loans through the issuance of certain debt or any repricing amendment resulting in a lower yield occurring at any time during the first six months after February 7, 2018 will be accompanied by a 1.00% payment premium or fee. Other than described above, the Term B Loans continue to have the same terms as provided under the existing credit agreement.

ITEM 15(a)(2). FINANCIAL STATEMENT SCHEDULES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 2,201	$ 10,171
Prepaid expenses	54	40
Total current assets	2,255	10,211
Deferred tax asset	—	—
Investment in subsidiaries	121,118	153,926
Total assets	$ 123,373	$ 164,137
Liabilities and Stockholders’ Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ —	$ 36
Intercompany payables	399	93
Total current liabilities	399	129
Long-term debt	149,588	146,284
Other long-term liabilities	1,321	1,296
Total liabilities	151,308	147,709
Stockholders’ equity:		
Common stock	149	149
Additional paid-in capital	177,276	177,276
Retained earnings	(201,557)	(156,451)
Accumulated other comprehensive loss	(3,803)	(4,546)
Total stockholders’ equity	(27,935)	16,428
Total liabilities and stockholders’ equity	$ 123,373	$ 164,137

PLAYAGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF OPERATIONS
(in thousands)

	Year ended December 31,		
	2017	2016	2015
Operating expenses			
Selling, general and administrative	$ 286	$ 231	$ 546
Total operating expenses	286	231	546
Loss from operations	(286)	(231)	(546)
Other expense (income)			
Equity in net loss of subsidiaries	28,302	62,450	33,405
Interest expense	16,518	15,165	8,123
Interest income	—	—	(1)
Loss before income taxes	(45,106)	(77,846)	(42,073)
Income tax benefit (expense)	—	(3,528)	3,528
Net loss	(45,106)	(81,374)	(38,545)
Foreign currency translation adjustment	743	(2,735)	(2,099)
Total comprehensive loss	$ (44,363)	$ (84,109)	$ (40,644)

PLAYAGS, INC.
(PARENT COMPANY ONLY)

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

	Year ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net loss	$ (45,106)	$ (81,374)	$ (38,545)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Amortization of deferred loan costs and discount	479	340	143
Payment-in-kind interest payments	(1,108)	—	—
Payment-in-kind interest capitalized	15,933	14,819	7,980
Equity in net loss of subsidiaries	28,302	62,450	33,405
(Benefit) provision of deferred income tax	—	3,528	(3,528)
Changes in assets and liabilities that relate to operations:			
Prepaid expenses	(14)	23	6
Intercompany payable/receivable	306	148	455
Accounts payable and accrued liabilities	(36)	35	(24)
Net cash (used in) provided by operating activities	(1,244)	(31)	(108)
Cash flows from investing activities			
Investment in subsidiaries	(7,965)	(15,720)	(172,484)
Distributions received from subsidiaries	8,084	—	1,322
Net cash used in investing activities	119	(15,720)	(171,162)
Cash flows from financing activities			
Proceeds from issuance of debt	—	—	111,550
Proceeds from issuance of common stock	—	—	77,425
Repayment of seller notes	(6,870)	—	—
Proceeds from employees in advance of common stock issuance	25	—	579
Repurchase of shares issued to management	—	(50)	(277)
Payment of deferred loan costs	—	—	(548)
Net cash provided by financing activities	(6,845)	(50)	188,729
Increase (decrease) in cash and cash equivalents	(7,970)	(15,801)	17,459
Cash and cash equivalents, beginning of period	10,171	25,972	8,513
Cash and cash equivalents, end of period	$ 2,201	$ 10,171	$ 25,972
Non-cash investing and financing activities:			
Subsidiary payment for share repurchase on Company’s behalf	$ —	$ —	$ 1,000
Intercompany payable settled as distribution	$ —	$ —	$ 890
Reduction of Amaya Seller Note	$ 5,130	$ —	$ —
Incurrence of Amaya Seller Note	$ —	$ —	$ 12,000

PLAYAGS, INC.
(PARENT COMPANY ONLY)

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The parent company financial statements of PlayAGS, Inc., formerly AP Gaming Holdco, Inc. (the " Parent Company") should be read in conjunction with the Company's consolidated financial statements and the accompanying notes thereto. For purposes of these condensed financial statements, the Parent Company's wholly owned and majority owned subsidiaries are recorded based upon its proportionate share of the subsidiaries' net assets (similar to presenting them on the equity method).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted since this information is included in the Company's consolidated financial statements included elsewhere in this Form 10-K.

NOTE 2 - COMMITMENTS AND CONTINGENCIES

The Parent Company is a holding company and, as a result, its ability to pay dividends is dependent on its subsidiaries' ability to obtain funds and its subsidiaries' ability to provide funds to it. Restrictions are imposed by its subsidiaries' debt instruments, which significantly restrict certain key subsidiaries holding a majority of its assets from making dividends or distributions to the Parent Company. These restrictions are subject to certain exceptions for affiliated overhead expenses as defined in the agreements governing the debt instruments, unless certain financial and non-financial criteria have been satisfied.

Long-term debt of the Parent Company consists of the senior secured PIK notes and the Amaya Seller Note as described below.

Senior Secured PIK Notes

On May 30, 2017, the Company entered into an amended and restated note purchase agreement (the "A&R Note Purchase Agreement") with AP Gaming Holdings, LLC, as subsidiary guarantor (the "Subsidiary Guarantor"), Deutsche Bank AG, London Branch, as holder (the "Holder"), and Deutsche Bank Trust Company Americas, as collateral agent, which amended and restated the note purchase agreement, dated as of May 29, 2015.

The A&R Note Purchase Agreement governs the Company's previously issued 11.25% senior secured PIK notes (the "Notes"), $115.0 million of which had been issued to the Holder at an issue price of 97% of the principal amount thereof to the Holder in a private placement exempt from registration under the Securities Act of 1933, as amended. The A&R Note Purchase Agreement extends the maturity of the Notes to May 28, 2024 and modifies the terms of the Notes to, among other things, account for the repayment of the AGS Seller Notes and the Amaya Seller Note.

The Notes remain secured by the Company's equity in its subsidiary AP Gaming, Inc., subject to certain limitations including those imposed by gaming laws, and are unconditionally guaranteed by the Subsidiary Guarantor. Interest on the Notes continues to accrue at a rate of 11.25% per annum. The Company may elect to pay interest due on the Notes in cash, by increasing the principal of the outstanding Notes or by issuing new Notes ("PIK interest") for the entire amount of the interest payment or by paying interest partially in cash and partially in PIK interest. Interest on the Notes accrues from the date of issuance and is payable on the dates described in more detail in the A&R Note Purchase Agreement.

The Notes contain limitations on additional indebtedness, guarantees, incurrence of liens, investments and distributions, as defined, some of which were modified in the A&R Note Purchase Agreement. The Notes also contains customary events of default included in similar transactions, including, among others, failure to make payments when due, acceleration of other material indebtedness, breach of covenants, breach of representations and warranties, involuntary or voluntary bankruptcy, and material judgments. At December 31, 2017 , the Notes totaled $149.6 million , which includes capitalized interest of $37.6 million .

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

Seller Note

On the June 6, 2017, the Company terminated a promissory note issued by the Company to Amaya Inc. (the "Amaya Seller Note") with an initial principal amount of $12.0 million . The Amaya Seller Note had been issued to satisfy the conditions set forth in the stock purchase agreement for Cadillac Jack. During the quarter ended March 31, 2017, the Amaya Seller Note was reduced by $5.1 million to settle a clause from the Stock Purchase Agreement allowing for a refund if certain deactivated gaming machines in Mexico were not in operation as of a specified date. In connection with the termination, the Company repaid all outstanding obligations in respect of principal and interest under the Amaya Seller Note.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Tax-related valuation allowance	Balance at the beginning of period	Charged to tax expense/(benefit)	Purchase accounting adjustments	Impact of foreign currency exchange rate	Balance at the end of period
Year ended December 31, 2017	$ 28,211	$ 5,557	$ —	$ 6	$ 33,774
Year ended December 31, 2016	$ 8,274	$ 19,962	$ —	$ (25)	$ 28,211
Year ended December 31, 2015	$ 14,260	$ (11,787)	$ 5,727	$ 74	$ 8,274

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333 -222740) of PlayAGS, Inc. of our report dated March 14, 2018 relating to the financial statements and financial statement schedules, which appears in this Form 10-K/A.

/s/ PricewaterhouseCoopers LLP

Las Vegas, Nevada

March 30, 2018

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-222740) pertaining to the AP Gaming Holdco, Inc. 2014 Long-Term Incentive Plan and the PlayAGS, Inc. Omnibus Incentive Plan of PlayAGS, Inc. (formerly AP Gaming Holdco, Inc.) of our report dated March 9, 2016 (except for Note 16 - Subsequent events - Stock Split, as to which the date is March 14, 2018), with respect to the consolidated financial statements and schedules of PlayAGS, Inc. included in this Annual Report (Form 10-K/A) for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Las Vegas, Nevada
March 30, 2018

Exhibit 31.1

Certification of Principal Executive Officer

of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, David Lopez, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A of PlayAGS, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 30, 2018

/s/ DAVID LOPEZ

David Lopez
Chief Executive Officer, President and Director
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer

of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Kimo Akiona, certify that:

1. I have reviewed this Amendment No. 1 on Form 10-K/A of PlayAGS, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 30, 2018

/s/ KIMO AKIONA

Kimo Akiona
Chief Financial Officer, Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32

Certification of Principal Executive Officer and Principal Financial Officer

Pursuant to 18 U.S.C. Section 1350

In connection with this Amendment No. 1 on Form 10-K/A to the Annual Report on Form 10-K of PlayAGS, Inc. (the "Company") for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Lopez, as Chief Executive Officer of the Company, and Kimo Akiona, as Treasurer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Date: March 30, 2018

/s/ DAVID LOPEZ

David Lopez
Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: March 30, 2018

/s/ KIMO AKIONA

Kimo Akiona
Chief Financial Officer, Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)

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