

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission file number: 001-32622

EVERI HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-0723270

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

7250 S. Tenaya Way, Suite 100

Las Vegas

Nevada

(Address of principal executive offices)

89113

(Zip Code)

(800) 833-7110

(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---------------------------------|-------------------|---|
| Common Stock, \$0.001 par value | EVRI | New York Stock Exchange |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of November 3, 2022, there were 89,466,734 shares of the registrant's \$0.001 par value per share common stock outstanding.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------------|---------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Revenues | | | | |
| Games revenues | | | | |
| Gaming operations | \$ 74,979 | \$ 71,580 | \$ 219,311 | \$ 202,941 |
| Gaming equipment and systems | 37,500 | 24,220 | 103,766 | 68,298 |
| Gaming other | 41 | 33 | 126 | 82 |
| Games total revenues | 112,520 | 95,833 | 323,203 | 271,321 |
| FinTech revenues | | | | |
| Financial access services | 53,296 | 46,421 | 154,051 | 129,973 |
| Software and other | 22,192 | 17,024 | 59,056 | 49,874 |
| Hardware | 16,310 | 9,024 | 40,846 | 28,829 |
| FinTech total revenues | 91,798 | 72,469 | 253,953 | 208,676 |
| Total revenues | 204,318 | 168,302 | 577,156 | 479,997 |
| Costs and expenses | | | | |
| Games cost of revenues⁽¹⁾ | | | | |
| Gaming operations | 6,557 | 5,675 | 18,674 | 15,776 |
| Gaming equipment and systems | 22,545 | 13,503 | 62,721 | 39,058 |
| Games total cost of revenues | 29,102 | 19,178 | 81,395 | 54,834 |
| FinTech cost of revenues⁽¹⁾ | | | | |
| Financial access services | 2,760 | 1,830 | 7,405 | 4,863 |
| Software and other | 1,163 | 1,063 | 2,984 | 3,196 |
| Hardware | 10,771 | 5,380 | 27,074 | 17,078 |
| FinTech total cost of revenues | 14,694 | 8,273 | 37,463 | 25,137 |
| Operating expenses | 56,354 | 47,121 | 161,230 | 133,320 |
| Research and development | 16,803 | 9,598 | 43,386 | 26,799 |
| Depreciation | 17,444 | 14,463 | 48,342 | 46,571 |
| Amortization | 15,303 | 14,596 | 43,582 | 43,680 |
| Total costs and expenses | 149,700 | 113,229 | 415,398 | 330,341 |
| Operating income | 54,618 | 55,073 | 161,758 | 149,656 |
| Other expenses | | | | |
| Interest expense, net of interest income | 14,880 | 14,257 | 38,522 | 50,488 |
| Loss on extinguishment of debt | — | 34,389 | — | 34,389 |
| Total other expenses | 14,880 | 48,646 | 38,522 | 84,877 |
| Income before income tax | 39,738 | 6,427 | 123,236 | 64,779 |
| Income tax provision (benefit) | 10,329 | (319) | 29,784 | 1,285 |
| Net income | 29,409 | 6,746 | 93,452 | 63,494 |
| Foreign currency translation loss | (2,639) | (442) | (4,665) | (335) |
| Comprehensive income | \$ 26,770 | \$ 6,304 | \$ 88,787 | \$ 63,159 |

(1) Exclusive of depreciation and amortization.

EVERI HOLDINGS INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME - CONTINUED
(In thousands, except earnings per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|---------|---------------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Earnings per share | | | | |
| Basic | \$ 0.33 | \$ 0.07 | \$ 1.03 | \$ 0.72 |
| Diluted | \$ 0.30 | \$ 0.07 | \$ 0.95 | \$ 0.64 |
| Weighted average common shares outstanding | | | | |
| Basic | 90,014 | 90,322 | 91,039 | 88,688 |
| Diluted | 96,436 | 101,359 | 98,306 | 99,581 |

See notes to unaudited condensed consolidated financial statements.

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

| | <u>At September 30,</u> | <u>At December 31,</u> |
|--|-------------------------|------------------------|
| | <u>2022</u> | <u>2021</u> |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 258,627 | \$ 302,009 |
| Settlement receivables | 76,854 | 89,275 |
| Trade and other receivables, net of allowances for credit losses of \$5,977 and \$5,161 at September 30, 2022 and December 31, 2021, respectively | 116,843 | 104,822 |
| Inventory | 55,890 | 29,233 |
| Prepaid expenses and other current assets | 39,009 | 27,299 |
| Total current assets | <u>547,223</u> | <u>552,638</u> |
| Non-current assets | | |
| Property and equipment, net | 130,545 | 119,993 |
| Goodwill | 707,214 | 682,663 |
| Other intangible assets, net | 230,928 | 214,594 |
| Other receivables | 24,777 | 13,982 |
| Deferred tax assets, net | 179 | 32,121 |
| Other assets | 28,657 | 19,659 |
| Total non-current assets | <u>1,122,300</u> | <u>1,083,012</u> |
| Total assets | <u>\$ 1,669,523</u> | <u>\$ 1,635,650</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Settlement liabilities | \$ 232,147 | \$ 291,861 |
| Accounts payable and accrued expenses | 209,766 | 173,933 |
| Current portion of long-term debt | 6,000 | 6,000 |
| Total current liabilities | <u>447,913</u> | <u>471,794</u> |
| Non-current liabilities | | |
| Deferred tax liabilities, net | 345 | — |
| Long-term debt, less current portion | 972,877 | 975,525 |
| Other accrued expenses and liabilities | 29,669 | 13,831 |
| Total non-current liabilities | <u>1,002,891</u> | <u>989,356</u> |
| Total liabilities | <u>1,450,804</u> | <u>1,461,150</u> |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity | | |
| Convertible preferred stock, \$0.001 par value, 50,000 shares authorized and no shares outstanding at September 30, 2022 and December 31, 2021, respectively | — | — |
| Common stock, \$0.001 par value, 500,000 shares authorized and 119,258 and 89,972 shares issued and outstanding at September 30, 2022, respectively, and 116,996 and 91,313 shares issued and outstanding at December 31, 2021, respectively | 119 | 117 |
| Additional paid-in capital | 522,353 | 505,757 |
| Accumulated deficit | (48,303) | (141,755) |
| Accumulated other comprehensive loss | (6,120) | (1,455) |
| Treasury stock, at cost, 29,286 and 25,683 shares at September 30, 2022 and December 31, 2021, respectively | (249,330) | (188,164) |
| Total stockholders' equity | <u>218,719</u> | <u>174,500</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,669,523</u> | <u>\$ 1,635,650</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---------------------------------|-------------------|
| | 2022 | 2021 |
| Cash flows from operating activities | | |
| Net income | \$ 93,452 | \$ 63,494 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 48,342 | 46,571 |
| Amortization | 43,582 | 43,680 |
| Non-cash lease expense | 3,599 | 3,400 |
| Amortization of financing costs and discounts | 2,140 | 3,234 |
| Loss on sale or disposal of assets | 420 | 1,616 |
| Accretion of contract rights | 7,367 | 6,966 |
| Provision for credit losses | 7,286 | 5,499 |
| Deferred income taxes | 28,042 | (174) |
| Reserve for inventory obsolescence | 659 | 1,610 |
| Loss on extinguishment of debt | — | 34,389 |
| Stock-based compensation | 15,012 | 12,404 |
| Changes in operating assets and liabilities: | | |
| Settlement receivables | 12,251 | 10,056 |
| Trade and other receivables | (23,845) | (25,522) |
| Inventory | (23,026) | (5,569) |
| Prepaid expenses and other assets | (26,388) | (8,068) |
| Settlement liabilities | (59,432) | 4,371 |
| Accounts payable and accrued expenses | 17,453 | 45,543 |
| Net cash provided by operating activities | 146,914 | 243,500 |
| Cash flows from investing activities | | |
| Capital expenditures | (92,225) | (73,288) |
| Acquisitions, net of cash acquired | (33,250) | (15,000) |
| Proceeds from sale of property and equipment | 115 | 215 |
| Placement fee agreements | (547) | — |
| Net cash used in investing activities | (125,907) | (88,073) |
| Cash flows from financing activities | | |
| Proceeds from new term loan | — | 600,000 |
| Repayments of new term loan | (4,500) | — |
| Repayments of prior term loan | — | (735,500) |
| Repayments of prior incremental term loan | — | (124,375) |
| Proceeds from 2021 unsecured notes | — | 400,000 |
| Repayments of 2017 unsecured notes | — | (285,381) |
| Fees associated with debt transactions - new debt | — | (19,797) |
| Fees associated with debt transactions - prior debt | — | (20,828) |
| Proceeds from exercise of stock options | 1,586 | 14,012 |
| Treasury stock - restricted share vestings and withholdings | (11,815) | (8,909) |
| Treasury stock - repurchase of shares | (49,351) | — |
| Payment of contingent consideration, acquisition | — | (9,875) |
| Net cash used in financing activities | (64,080) | (190,653) |
| Effect of exchange rates on cash and cash equivalents | (1,106) | (237) |
| Cash, cash equivalents and restricted cash | | |
| Net decrease for the period | (44,179) | (35,463) |
| Balance, beginning of the period | 303,726 | 252,349 |
| Balance, end of the period | \$ 259,547 | \$ 216,886 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2022 | 2021 |
| Supplemental cash disclosures | | |
| Cash paid for interest | \$ 42,070 | \$ 45,167 |
| Cash paid for income tax, net | 846 | 975 |
| Supplemental non-cash disclosures | | |
| Accrued and unpaid capital expenditures | \$ 5,511 | \$ 32,999 |
| Transfer of leased gaming equipment to inventory | 7,758 | 5,636 |

See notes to unaudited condensed consolidated financial statements.

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

| | Common Stock— Series A | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|---|---------------------------|---------------|----------------------------------|------------------------|---|---------------------|----------------------------------|
| | Number of Shares | Amount | | | | | |
| Balance, January 1, 2021 | 111,872 | \$ 112 | \$ 466,614 | \$ (294,620) | \$ (1,191) | \$ (178,813) | \$ (7,898) |
| Net income | — | — | — | 20,534 | — | — | 20,534 |
| Foreign currency translation | — | — | — | — | (221) | — | (221) |
| Stock-based compensation expense | — | — | 3,005 | — | — | — | 3,005 |
| Exercise of warrants | 378 | — | — | — | — | — | — |
| Exercise of options | 561 | 1 | 2,284 | — | — | — | 2,285 |
| Restricted share vestings and withholdings | 41 | — | (1) | — | — | (172) | (173) |
| Balance, March 31, 2021 | <u>112,852</u> | <u>\$ 113</u> | <u>\$ 471,902</u> | <u>\$ (274,086)</u> | <u>\$ (1,412)</u> | <u>\$ (178,985)</u> | <u>\$ 17,532</u> |
| Net income | — | — | — | 36,214 | — | — | 36,214 |
| Foreign currency translation | — | — | — | — | 328 | — | 328 |
| Stock-based compensation expense | — | — | 5,447 | — | — | — | 5,447 |
| Exercise of options | 1,358 | 2 | 6,416 | — | — | — | 6,418 |
| Restricted share vestings and withholdings | 1,349 | 1 | (3) | — | — | (8,437) | (8,439) |
| Balance, June 30, 2021 | <u>115,559</u> | <u>\$ 116</u> | <u>\$ 483,762</u> | <u>\$ (237,872)</u> | <u>\$ (1,084)</u> | <u>\$ (187,422)</u> | <u>\$ 57,500</u> |
| Net income | — | — | — | 6,746 | — | — | 6,746 |
| Foreign currency translation | — | — | — | — | (442) | — | (442) |
| Stock-based compensation expense | — | — | 3,952 | — | — | — | 3,952 |
| Exercise of options | 762 | — | 5,309 | — | — | — | 5,309 |
| Restricted share vestings and withholdings | 36 | — | (1) | — | — | (296) | (297) |
| Balance, September 30, 2021 | <u>116,357</u> | <u>\$ 116</u> | <u>\$ 493,022</u> | <u>\$ (231,126)</u> | <u>\$ (1,526)</u> | <u>\$ (187,718)</u> | <u>\$ 72,768</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | Common Stock— Series A | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|---|---------------------------|---------------|----------------------------------|------------------------|---|---------------------|----------------------------------|
| | Number of Shares | Amount | | | | | |
| Balance, January 1, 2022 | 116,996 | \$ 117 | \$ 505,757 | \$ (141,755) | \$ (1,455) | \$ (188,164) | \$ 174,500 |
| Net income | — | — | — | 31,522 | — | — | 31,522 |
| Foreign currency translation | — | — | — | — | 580 | — | 580 |
| Stock-based compensation expense | — | — | 4,811 | — | — | — | 4,811 |
| Exercise of options | 164 | — | 699 | — | — | — | 699 |
| Restricted share vestings and withholdings | 61 | — | — | — | — | (400) | (400) |
| Balance, March 31, 2022 | <u>117,221</u> | <u>\$ 117</u> | <u>\$ 511,267</u> | <u>\$ (110,233)</u> | <u>\$ (875)</u> | <u>\$ (188,564)</u> | <u>\$ 211,712</u> |
| Net income | — | — | — | 32,521 | — | — | 32,521 |
| Foreign currency translation | — | — | — | — | (2,606) | — | (2,606) |
| Stock-based compensation expense | — | — | 5,500 | — | — | — | 5,500 |
| Exercise of options | 5 | — | 20 | — | — | — | 20 |
| Restricted share vestings and withholdings | 1,883 | 2 | (2) | — | — | (11,182) | (11,182) |
| Repurchase of shares | — | — | — | — | — | (33,336) | (33,336) |
| Balance, June 30, 2022 | <u>119,109</u> | <u>\$ 119</u> | <u>\$ 516,785</u> | <u>\$ (77,712)</u> | <u>\$ (3,481)</u> | <u>\$ (233,082)</u> | <u>\$ 202,629</u> |
| Net income | — | — | — | 29,409 | — | — | 29,409 |
| Foreign currency translation | — | — | — | — | (2,639) | — | (2,639) |
| Stock-based compensation expense | — | — | 4,701 | — | — | — | 4,701 |
| Exercise of options | 115 | — | 867 | — | — | — | 867 |
| Restricted share vestings and withholdings | 34 | — | — | — | — | (233) | (233) |
| Repurchase of shares | — | — | — | — | — | (16,015) | (16,015) |
| Balance, September 30, 2022 | <u>119,258</u> | <u>\$ 119</u> | <u>\$ 522,353</u> | <u>\$ (48,303)</u> | <u>\$ (6,120)</u> | <u>\$ (249,330)</u> | <u>\$ 218,719</u> |

See notes to unaudited condensed consolidated financial statements.

EVERI HOLDINGS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. BUSINESS

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

Everi is a supplier of entertainment and technology solutions for the casino and digital gaming industry. The Company develops game content and gaming machines, gaming systems and services for land-based and iGaming operators. The Company is also a provider of financial technology solutions that power the casino floor, including products and services that facilitate cash and cashless financial transactions, self-service player loyalty tools and applications, and regulatory and intelligence software.

Everi reports its financial performance, and organizes and manages its operations, across the following two business segments: (i) Games and (ii) Financial Technology Solutions (“FinTech”).

Everi Games provides gaming operators with gaming technology and entertainment products and services, including: (i) gaming machines, primarily comprising Class II and Class III slot machines and Historic Horse Racing (“HHR”) gaming machines placed under participation or fixed-fee lease arrangements or sold to casino customers; (ii) providing and maintaining the central determinant systems for the video lottery terminals (“VLTs”) installed in the State of New York and similar technology in certain tribal jurisdictions; and (iii) business-to-business (“B2B”) digital online gaming activities.

Everi FinTech provides gaming operators with financial technology products and services, including: (i) financial access and related services supporting digital, cashless and physical cash options across mobile, assisted and self-service channels; (ii) loyalty and marketing software and tools, regulatory and compliance (“RegTech”) software solutions, other information-related products and services, and hardware maintenance services; and (iii) associated casino patron self-service hardware that utilizes our financial access, software and other services. Our services operate as part of an end-to-end security suite to protect against cyber-related attacks and maintain the necessary secured environments to maintain compliance with applicable regulatory requirements. These solutions include: access to cash and cashless funding at gaming facilities via Automated Teller Machine (“ATM”) debit withdrawals, credit card financial access transactions, and point of sale (“POS”) debit card purchases at casino cages, kiosk and mobile POS devices; accounts for the CashClub Wallet, check warranty services, self-service loyalty and fully integrated kiosk maintenance services; self-service loyalty tools and promotion management software; compliance, audit, and data software; casino credit data and reporting services; marketing and promotional offering subscription-based services; and other ancillary offerings.

Impact of the Coronavirus Disease 2019 (“COVID-19”) Pandemic

The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains, and created significant volatility in the financial markets. Initially, it lowered equity market valuations and raised the cost of borrowing funds, increased unemployment levels, and caused temporary, and in certain cases, permanent closures of many businesses. The gaming industry was not immune to these factors as our casino customers closed their gaming establishments in the first quarter of 2020. As the initial impacts from the COVID-19 pandemic subsided, most of our casino customers began to reopen their operations over the remainder of 2020 and throughout 2021. While some of our customers’ locations have permanently ceased operations, nearly all of our customer base has resumed operations as of September 30, 2022. In addition, the impacts of employment constraints and supply chain disruptions continue to challenge our customers and us.

Since the onset of COVID-19, we have implemented measures to mitigate our exposure throughout the global pandemic. While many pandemic impacts have subsided, further uncertainty still challenges our customers and us as a result of COVID-19 and the resurgence of its variants. We continue to evaluate our business strategies and monitor the impacts of the global pandemic, employment constraints and supply chain disruptions on our results of operations and financial condition, and make adjustments to our business, accordingly.

Our revenues for the third quarter of 2022 exceeded the third quarter of 2021. While gaming industry conditions have improved significantly compared to the start of the pandemic, it is unclear if customers' industry capital allocations will fully return to and remain at pre-COVID levels. With macro-economic volatility and pandemic-related challenges still in effect, we expect that demand and supply for our products and services could be tempered in the short-term, to the extent gaming activity decreases at our customers' locations, or fails to increase at expected rates, and to the extent our customers decide to restrict their capital spending as a result of uncertainty in the industry, or that supply chain disruptions might impact customer deliveries, or otherwise.

The impact of the COVID-19 pandemic also exacerbates the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"), including, but not limited to: our ability to generate revenues and, earn profits, our ability to service existing and attract new customers and maintain our overall competitiveness in the market; the potential for significant fluctuations in demand for our products and services; overall trends in the gaming industry impacting our business, and potential volatility in our stock price, among other concerns.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Our unaudited condensed consolidated financial statements included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Some of the information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to such rules and regulations, although we believe the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. The results for the three and nine months ended September 30, 2022 are not necessarily indicative of results to be expected for the full fiscal year. The Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the most recently filed Annual Report.

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

Revenue Recognition

Overview

We evaluate the recognition of revenue based on the criteria set forth in Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers and ASC 842 — Leases, as appropriate. We recognize revenue upon transferring control of goods or services to our customers in an amount that reflects the consideration we expect to receive in exchange for those goods or services. We enter into contracts with customers that include various performance obligations consisting of goods, services, or combinations of goods and services. Timing of the transfer of control varies based on the nature of the contract. We recognize revenue net of any sales and other taxes collected from customers, which are subsequently remitted to governmental authorities and are not included in revenues or operating expenses. We measure revenue based on the consideration specified in a contract with a customer and adjusted, as necessary.

Disaggregation of Revenues

We disaggregate revenues based on the nature and timing of the cash flows generated by such revenues as presented in ["Note 18 — Segment Information."](#)

Contract Balances

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

The following table summarizes our contract assets and contract liabilities arising from contracts with customers (in thousands):

| | 2022 | 2021 |
|---|------------------|-------------------|
| Contract assets⁽¹⁾ | | |
| Balance at January 1 - current | \$ 9,927 | \$ 9,240 |
| Balance at January 1 - non-current | 5,294 | 8,321 |
| Total | 15,221 | 17,561 |
| Balance at September 30 - current | 12,223 | 9,728 |
| Balance at September 30 - non-current | 10,589 | 5,647 |
| Total | 22,812 | 15,375 |
| Increase (decrease) | \$ 7,591 | \$ (2,186) |
| Contract liabilities⁽²⁾ | | |
| Balance at January 1 - current | \$ 36,238 | \$ 26,980 |
| Balance at January 1 - non-current | 377 | 289 |
| Total | 36,615 | 27,269 |
| Balance at September 30 - current | 44,460 | 36,503 |
| Balance at September 30 - non-current | 2,246 | 493 |
| Total | 46,706 | 36,996 |
| Increase | \$ 10,091 | \$ 9,727 |

(1) The current portion of contract assets is included within trade and other receivables, net, and the non-current portion is included within other receivables in our Balance Sheets.

(2) The current portion of contract liabilities is included within accounts payable and accrued expenses, and the non-current portion is included within other accrued expenses and liabilities in our Balance Sheets.

We recognized approximately \$25.1 million and \$21.0 million in revenue that was included in the beginning contract liabilities balance during the nine months ended September 30, 2022 and 2021, respectively.

Games Revenues

Our products and services include electronic gaming devices, such as Native American Class II offerings and other electronic bingo products, Class III slot machine offerings, HHR offerings, VLTs, B2B digital online gaming activities, accounting and central determinant systems, and other back-office systems. We conduct our Games segment business based on results generated from the following major revenue streams: (i) Gaming Operations; (ii) Gaming Equipment and Systems; and (iii) Gaming Other.

We recognize our Gaming Operations revenue based on criteria set forth in ASC 842 or ASC 606, as applicable. The amount of lease revenue included in our Gaming Operations revenues and recognized under ASC 842 was approximately \$51.4 million and \$148.0 million for the three and nine months ended September 30, 2022, respectively, and \$49.2 million and \$141.6 million for the three and nine months ended September 30, 2021, respectively.

FinTech Revenues

Our FinTech products and services include solutions that we offer to gaming establishments to provide their patrons with financial access and funds-based services supporting digital, cashless and physical cash options across mobile, assisted and self-service channels along with related loyalty and marketing tools, and other information-related products and services. In addition, our services operate as part of an end-to-end security suite to protect against cyber-related attacks and maintain the necessary secured environments to maintain compliance with applicable regulatory requirements. These solutions include: access to cash and cashless funding at gaming facilities via ATM debit withdrawals, credit card financial access transactions, and POS debit card purchases at casino cages, kiosk and mobile POS devices; accounts for the CashClub Wallet, check warranty services, self-service loyalty and fully integrated kiosk maintenance services; self-service loyalty tools and promotion management software; compliance, audit, and data software; casino credit data and reporting services; marketing and promotional offering subscription-based services; and other ancillary offerings. We conduct our FinTech segment business based on results generated from the following major revenue streams: (i) Financial Access Services; (ii) Software and Other; and (iii) Hardware.

Hardware revenues are derived from the sale of our financial access and loyalty kiosks and related equipment and are accounted for under ASC 606, unless such transactions meet the definition of a sales type or direct financing lease, which are accounted for under ASC 842. We did not have any material financial access kiosk and related equipment sales contracts accounted for under ASC 842 during the three and nine months ended September 30, 2022 and 2021.

Restricted Cash

Our restricted cash primarily consists of: (i) funds held in connection with certain customer agreements; (ii) funds held in connection with a sponsorship agreement; (iii) wide area progressive (“WAP”)-related restricted funds; and (iv) financial access activities related to cashless balances held on behalf of patrons. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Balance Sheets that sum to the total of the same such amounts shown in the statement of cash flows for the nine months ended September 30, 2022 (in thousands).

| | Classification on our Balance Sheets | At September 30, 2022 | At December 31, 2021 |
|-------------------------------|---|-----------------------|----------------------|
| Cash and cash equivalents | Cash and cash equivalents | \$ 258,627 | \$ 302,009 |
| Restricted cash - current | Prepaid expenses and other current assets | 819 | 1,616 |
| Restricted cash - non-current | Other assets | 101 | 101 |
| Total | | \$ 259,547 | \$ 303,726 |

Allowance for Credit Losses

We continually evaluate the collectability of outstanding balances and maintain an allowance for credit losses related to our trade and other receivables and notes receivable that have been determined to have a high risk of uncollectability, which represents our best estimates of the current expected credit losses to be incurred in the future. To derive our estimates, we analyze historical collection trends and changes in our customer payment patterns, current and expected conditions and market trends along with our operating forecasts, concentration, and creditworthiness when evaluating the adequacy of our allowance for credit losses. In addition, with respect to our check warranty receivables, we are exposed to risk for the losses associated with warranted items that cannot be collected from patrons issuing these items. We evaluate the collectability of the outstanding balances and establish a reserve for the face amount of the current expected credit losses related to these receivables. Account balances are charged against the provision when the Company believes it is probable the receivable will not be recovered. The provision for doubtful accounts receivable is included within operating expenses and the check warranty loss reserves are included within financial access services cost of revenues in the Statements of Operations.

Goodwill

Goodwill represents the excess of the purchase price over the identifiable tangible and intangible assets acquired plus liabilities assumed arising from business combinations. We test for impairment annually on a reporting unit basis, at the beginning of our fourth fiscal quarter and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The annual impairment test is completed using either: a qualitative “Step 0” assessment based on reviewing relevant events and circumstances; or a quantitative “Step 1” assessment, which determines the fair value of the reporting unit, using both an income approach that discounts future cash flows based on the estimated future results of our reporting units and a market approach that compares market multiples of comparable companies to determine whether an impairment exists. To the extent the carrying amount of a reporting unit is less than its estimated fair value, an impairment charge is recorded.

The evaluation of impairment of goodwill requires the use of estimates about future operating results. Changes in forecasted operations can materially affect these estimates, which could materially affect our results of operations and financial condition. The estimates of expected future cash flows require significant judgment and are based on assumptions we determined to be reasonable; however, they are unpredictable and inherently uncertain, including, estimates of future growth rates, operating margins and assumptions about the overall economic climate as well as the competitive environment within which we operate. There can be no assurance that our estimates and assumptions made for purposes of our impairment assessments as of the time of evaluation will prove to be accurate predictions of the future. If our assumptions regarding business plans, competitive environments, or anticipated growth rates are not correct, we may be required to record non-cash impairment charges in future periods, whether in connection with our normal review procedures periodically, or earlier, if an indicator of an impairment is present prior to such evaluation.

Our reporting units are identified as operating segments or one level below. Reporting units must: (i) engage in business activities from which they earn revenues and incur expenses; (ii) have operating results that are regularly reviewed by our segment management to ascertain the resources to be allocated to the segment and assess its performance; and (iii) have discrete financial information available. As of September 30, 2022, our reporting units included: (i) Games; (ii) Financial Access Services; (iii) Kiosk Sales and Services; (iv) Central Credit Services; (v) Compliance Sales and Services; and (vi) Loyalty Sales and Services.

Fair Values of Financial Instruments

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

The carrying amount of cash and cash equivalents, restricted cash, settlement receivables, short-term trade and other receivables, settlement liabilities, accounts payable, and accrued expenses approximate fair value due to the short-term maturities of these instruments. The fair value of the long-term trade and loans receivable is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. The fair value of long-term accounts payable is estimated by discounting the total obligation using the appropriate interest rates. As of September 30, 2022 and December 31, 2021, the fair value of trade and loans receivable approximated the carrying value due to contractual terms generally being slightly over 12 months. The fair value of our borrowings is estimated based on various inputs to determine a market price, such as: market demand and supply, size of tranche, maturity, and similar instruments trading in more active markets. The estimated fair value and outstanding balances of our borrowings are as follows (dollars in thousands):

| | Level of Hierarchy | | Fair Value | | Outstanding Balance |
|------------------------------------|--------------------|----|------------|----|---------------------|
| September 30, 2022 | | | | | |
| \$600 million New Term Loan | 2 | \$ | 572,972 | \$ | 594,000 |
| \$400 million 2021 Unsecured Notes | 2 | \$ | 329,984 | \$ | 400,000 |
| December 31, 2021 | | | | | |
| \$600 million New Term Loan | 2 | \$ | 598,171 | \$ | 598,500 |
| \$400 million 2021 Unsecured Notes | 2 | \$ | 404,000 | \$ | 400,000 |

Our borrowings' fair values were determined using Level 2 inputs based on quoted market prices for these securities.

Reclassification of Prior Year Balances

Certain amounts in the accompanying consolidated financial statements and accompanying notes have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on net income for the prior periods.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

| Standard | Description | Date of Adoption | Effect on Financial Statements |
|---|--|------------------|--|
| ASU 2021-05, 'Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments | This ASU amends the lease with classification requirements for lessors to align them with practice under ASC Topic 840 | January 1, 2022 | The adoption of this ASU did not have a material effect on our Financial Statements or on our disclosures. |

Recent Accounting Guidance Not Yet Adopted

As of September 30, 2022, we do not anticipate recently issued accounting guidance to have a significant future impact on our consolidated financial statements.

3. LEASES

We determine if a contract is, or contains, a lease at the inception, or modification, of a contract based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of an asset is predicated upon the notion that a lessee has both the right to (i) obtain substantially all of the economic benefit from the use of the asset; and (ii) direct the use of the asset.

Operating lease right-of-use (“ROU”) assets and liabilities are recognized based on the present value of minimum lease payments over the expected lease term at commencement date. Lease expense is recognized on a straight-line basis over the expected lease term. Our lease arrangements have both lease and non-lease components, and we have elected the practical expedient to account for the lease and non-lease elements as a single lease.

Certain of our lease arrangements contain options to renew with terms that generally have the ability to extend the lease term to a range of approximately one to ten years. The exercise of lease renewal options is generally at our sole discretion. The expected lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise such option. The depreciable life of leased assets and leasehold improvements is limited by the expected term of such assets, unless there is a transfer of title or purchase option reasonably certain to be exercised.

Lessee

We enter into operating lease agreements for real estate purposes that generally consist of buildings for office space and warehouses for manufacturing purposes. Certain of our lease agreements consist of rental payments that are periodically adjusted for inflation. Our lease agreements do not contain material residual value guarantees or material restrictive covenants. Our lease agreements do not generally provide explicit rates of interest; therefore, we use our incremental collateralized borrowing rate, which is based on a fully collateralized and fully amortizing loan with a maturity date the same as the length of the lease that is based on the information available at the commencement date to determine the present value of lease payments. Leases with an initial term of 12 months or less (short-term) are not accounted for on our Balance Sheets. As of September 30, 2022 and December 31, 2021, our finance leases were not material.

Supplemental balance sheet information related to our operating leases is as follows (in thousands):

| | Classification on our Balance Sheets | At September 30, 2022 | | At December 31, 2021 | |
|---|--|-----------------------|--------|----------------------|--------|
| Assets | | | | | |
| Operating lease ROU assets | Other assets, non-current | \$ | 18,426 | \$ | 12,692 |
| Liabilities | | | | | |
| Current operating lease liabilities | Accounts payable and accrued expenses | \$ | 6,436 | \$ | 5,663 |
| Non-current operating lease liabilities | Other accrued expenses and liabilities | \$ | 16,281 | \$ | 11,869 |

Supplemental cash flow information related to leases is as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------|---------------------------------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| Cash paid for: | | | | |
| Long-term operating leases | \$ | 1,855 | \$ | 1,660 |
| Short-term operating leases | \$ | 398 | \$ | 400 |
| Right-of-use assets obtained in exchange for lease obligations: | | | | |
| Operating leases ⁽¹⁾ | \$ | 997 | \$ | 396 |
| | | | \$ | 7,448 |
| | | | \$ | 1,063 |

(1) The amounts are presented net of current year terminations and exclude amortization for the period.

Information related to lease terms and discount rates is as follows:

| | At September 30, 2022 | At December 31, 2021 |
|--|-----------------------|----------------------|
| Weighted Average Remaining Lease Term (in years): | | |
| Operating leases | 3.57 | 3.52 |
| Weighted Average Discount Rate: | | |
| Operating leases | 4.71 % | 5.04 % |

Components of lease expense, which are included in operating expenses, are as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|----------------------------------|-------|---------------------------------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| Operating Lease Cost: | | | | |
| Operating lease cost | \$ | 1,663 | \$ | 1,276 |
| Variable lease cost | \$ | 259 | \$ | 311 |
| | | | \$ | 4,492 |
| | | | \$ | 4,192 |
| | | | \$ | 902 |
| | | | \$ | 946 |

Maturities of lease liabilities are summarized as follows as of September 30, 2022 (in thousands):

| Year Ending December 31, | Amount |
|---|------------------|
| 2022 (excluding the nine months ended September 30, 2022) | \$ 1,750 |
| 2023 | 7,293 |
| 2024 | 6,747 |
| 2025 | 5,834 |
| 2026 | 2,137 |
| Thereafter | 967 |
| Total future minimum lease payments | 24,728 |
| Less: Amount representing interest | 2,011 |
| Present value of future minimum lease payments | 22,717 |
| Less: Current operating lease obligations | 6,436 |
| Long-term lease obligations | \$ 16,281 |

Lessor

We generate lease revenues primarily from our gaming operations activities, and the majority of our leases are month-to-month leases. Under these arrangements, we retain ownership of the electronic gaming machines (“EGMs”) installed at customer facilities. We receive recurring revenues based on a percentage of the net win per day generated by the leased gaming equipment or a fixed daily fee. Such revenues are generated daily and are limited to the lesser of the net win per day generated by the leased gaming equipment or the fixed daily fee and the lease payments that have been collected from the lessee. Certain of our leases have terms and conditions with options for a lessee to purchase the underlying assets. Refer to ["Note 9 - Property and Equipment"](#) for details of our rental pool assets cost and accumulated depreciation.

We did not have material sales transactions that qualified for sales-type lease accounting treatment during the three and nine months ended September 30, 2022 and 2021. Our interest income recognized in connection with sales-type leases executed in the prior periods was not material.

Supplemental balance sheet information related to our sales-type leases is as follows (in thousands):

| | Classification on our Balance Sheets | At September 30, 2022 | At December 31, 2021 |
|---|---|------------------------------|-----------------------------|
| Assets | | | |
| Net investment in sales-type leases - current | Trade and other receivables, net | \$ 366 | \$ 1,331 |

4. BUSINESS COMBINATIONS

We account for business combinations in accordance with ASC 805 — Business Combinations, which requires that the identifiable assets acquired and liabilities assumed be recorded at their estimated fair values on the acquisition date separately from goodwill, which is the excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities. We include the results of operations of an acquired business as of the acquisition date.

ecash Holdings Pty Limited

On March 1, 2022 (the “Closing Date”), the Company acquired the stock of ecash Holdings Pty Limited and wholly-owned subsidiaries Global Payment Technologies Australia Pty Limited, and ACN 121 187 068 Pty Limited (collectively “ecash”), a privately owned, Australia-based developer and provider of innovative cash handling and financial payment solutions for the broader gaming industry in Australia, Asia, Europe, and the United States. The acquisition of ecash’s products and services represents a strategic extension of Everi’s current suite of financial technology solutions within the FinTech segment. The acquisition provides Everi with a complementary portfolio of new customer locations throughout Australia, the United States, and other geographies.

Under the terms of the stock purchase agreement, we paid the seller AUD\$20 million (approximately USD\$15 million) on the Closing Date of the transaction and we will pay an additional AUD\$6.5 million one year following the Closing Date and another AUD\$6.5 million two years following the Closing Date. In addition, we paid approximately AUD\$8.7 million (approximately USD\$6.0 million) for the excess net working capital during the second quarter of 2022.

Pursuant to the arrangement, there is an earn-out provision of up to AUD\$10 million, to the extent certain growth targets are achieved. The payment, if any, is subject to certain employment restrictions and will be accounted for as compensation expense in accordance with GAAP.

The acquisition did not have a significant impact on our results of operations or financial condition for the three and nine months ended September 30, 2022.

The total preliminary purchase consideration for cash was as follows (in thousands, at fair value):

| | Amount in USD | |
|-------------------------------------|----------------------|---------------|
| Purchase consideration | | |
| Cash consideration paid at closing | \$ | 14,980 |
| Cash consideration post-closing | | 15,905 |
| Total purchase consideration | \$ | 30,885 |

Cash consideration to be paid is comprised of a short-term component that is recorded in accounts payable and accrued expenses and a long-term component payable within two years recorded in other accrued expenses and liabilities of our Balance Sheets.

The transaction was accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. The excess of the purchase price over those fair values was recorded as goodwill, which will be amortized over a period of 15 years for tax purposes. The goodwill recognized is primarily attributable to the income potential from the expansion of our footprint in the gaming space by enhancing our financial technology solution portfolio to add new markets and business lines and an assembled workforce, among other strategic benefits.

The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows. The estimated fair values of assets acquired and liabilities assumed and resulting goodwill are subject to adjustment as the Company finalizes its purchase price accounting. The significant items for which a final fair value has not been determined include, but are not limited to: the valuation and estimated useful lives of intangible assets, deferred and unearned revenues, and deferred income taxes. We do not expect our fair value determinations to materially change; however, there may be differences between the amounts recorded at the Closing Date and the final fair value analysis, which we expect to complete no later than the first quarter of 2023.

The information below reflects the preliminary amounts of identifiable assets acquired and liabilities assumed (in thousands):

| | Amount in USD* | |
|--|-----------------------|---------------|
| Current assets | \$ | 12,850 |
| Property and equipment | | 1,218 |
| Other intangible assets | | 11,600 |
| Goodwill | | 11,861 |
| Other assets | | 726 |
| Total Assets | | 38,255 |
| Accounts payable and accrued expenses | | 7,160 |
| Other accrued expenses and liabilities | | 210 |
| Total liabilities | | 7,370 |
| Net assets acquired | \$ | 30,885 |

*Reflects a measurement period adjustment of approximately \$1.2 million from the initial allocation as of the closing date of the transaction.

Current assets acquired included approximately \$2.8 million in cash. Trade receivables acquired of approximately \$5.7 million were short-term in nature and considered to be collectible, and therefore, the carrying amounts of these assets represented their fair values. Inventory acquired of approximately \$4.2 million consisted of raw materials and finished goods and was recorded at fair value based on the estimated net realizable value of these assets. Property, equipment, and leased assets acquired were not material in size or scope, and the carrying amounts of these assets approximated their fair values.

The following table summarizes preliminary values of acquired intangible assets (dollars in thousands):

| | Useful Life (Years) | Estimated Fair Value (USD) |
|--------------------------------------|---------------------|----------------------------|
| Other Intangible Assets | | |
| Trade name | 3 | \$ 700 |
| Developed technology | 3 | 3,600 |
| Customer relationships | 9 | 7,300 |
| Total other intangible assets | | \$ 11,600 |

The fair value of intangible assets was determined by applying the income approach. Other intangible assets acquired of approximately \$11.6 million were comprised of customer relationships, developed technology and trade name. The fair value of customer relationships of approximately \$7.3 million was determined by applying the income approach utilizing the excess earnings methodology using Level 3 inputs in the fair value hierarchy including a discount rate of 17%. The fair value of developed technology of approximately \$3.6 million was determined by applying the income approach utilizing the relief from royalty methodology using Level 3 inputs with a royalty rate of 7.5% and a discount rate of 17%. The fair value of trade name of approximately \$0.7 million was determined by applying the income approach utilizing the relief from royalty methodology using Level 3 inputs with a royalty rate of 2% and a discount rate of 17%.

The financial results included in our Statements of Operations since the acquisition date and through September 30, 2022 reflected revenues of approximately \$9.4 million and an immaterial net loss. We incurred acquisition-related costs of approximately \$0.2 million for the nine months ended September 30, 2022.

Intuicode Gaming Corporation

On April 30, 2022 (the “Closing Date”), the Company acquired the stock of Intuicode Gaming Corporation (“Intuicode”), a privately owned game development and engineering firm focused on HHR games. The acquisition of Intuicode provides Everi with additional HHR expertise that will help the Company accelerate its growth in the expanding HHR market that will benefit the Games segment.

Under the terms of the stock purchase agreement, we paid the seller \$12.5 million on the Closing Date of the transaction and a net working capital payment of \$1.6 million during the second quarter of 2022. In addition, we expect to pay approximately \$13.0 million in contingent consideration based upon the achievement of certain revenue targets on the first and second anniversaries of the Closing Date. We expect the total consideration for this acquisition, inclusive of contingent consideration, to be approximately \$27.1 million.

The acquisition did not have a significant impact on our results of operations or financial condition for the three and nine months ended September 30, 2022.

The total preliminary purchase consideration for Intuicode was as follows (in thousands, at fair value):

| | Amount in USD |
|---|------------------|
| Purchase consideration | |
| Cash consideration paid at closing | \$ 12,500 |
| Cash consideration post-closing | 1,595 |
| Total cash consideration | 14,095 |
| Contingent consideration (at fair value) | 12,150 |
| Total purchase consideration | \$ 26,245 |

The fair value of the contingent consideration was based on Level 3 inputs utilizing a discounted cash flow methodology. The estimates and assumptions included projected future revenues of the acquired business and a discount rate of approximately 5%. Based on our quarterly review, there were no material adjustments required to our estimates and assumptions with respect to the contingent consideration. Contingent consideration to be paid is comprised of a short-term component that is recorded in accounts payable and accrued expenses and a long-term component payable within two years recorded in other accrued expenses and liabilities of our Balance Sheets.

The transaction was accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. The excess of the purchase price over those fair values was recorded as goodwill, which will be amortized over a period of 15 years for tax purposes. The goodwill recognized is primarily attributable to the income potential from the expansion of our footprint in the gaming space by accelerating our entry into and growth in the expanding HHR market and business line, assembled workforce, among other strategic benefits.

The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows. The estimated fair values of assets acquired and liabilities assumed and resulting goodwill are subject to adjustment as the Company finalizes its purchase price accounting. The significant items for which a final fair value has not been determined include, but are not limited to: the valuation and estimated useful lives of intangible assets, deferred and unearned revenues, and deferred income taxes. We do not expect our fair value determinations to materially change; however, there may be differences between the amounts recorded at the Closing Date and the final fair value analysis, which we expect to complete no later than the second quarter of 2023.

The information below reflects the preliminary amounts of identifiable assets acquired and liabilities assumed as of the closing date of the transaction (in thousands):

| | Amount in USD | |
|---------------------------------------|----------------------|---------------|
| Current assets | \$ | 3,944 |
| Other intangible assets | | 18,757 |
| Goodwill | | 10,422 |
| Total Assets | | 33,123 |
| Accounts payable and accrued expenses | | 2,407 |
| Deferred tax liabilities | | 4,471 |
| Total liabilities | | 6,878 |
| Net assets acquired | \$ | 26,245 |

Current assets acquired included approximately \$2.1 million in cash. Trade receivables acquired of approximately \$0.6 million were short-term in nature and considered to be collectible, and therefore, the carrying amounts of these assets represented their fair values. Inventory acquired of approximately \$0.4 million consisted of raw materials and finished goods and was recorded at fair value based on the estimated net realizable value of these assets. Leased assets acquired were not material in size or scope, and the carrying amounts of these assets approximated their fair values.

The following table summarizes preliminary values of acquired intangible assets (dollars in thousands):

| | Useful Life (Years) | Estimated Fair Value (USD) |
|--------------------------------------|----------------------------|-----------------------------------|
| Other Intangible Assets | | |
| Trade name | 10 | \$ 400 |
| Developed technology | 2 | 3,357 |
| Customer relationships | 9 | 15,000 |
| Total other intangible assets | | \$ 18,757 |

The fair value of intangible assets was determined by applying the income approach. Other intangible assets acquired of approximately \$18.8 million were comprised of customer relationships, developed technology and trade name. The fair value of customer relationships of approximately \$15.0 million was determined by applying the income approach utilizing the excess earnings methodology using Level 3 inputs in the hierarchy with a discount rate of 40%. The fair value of developed technology of approximately \$3.4 million was determined by applying the income approach utilizing the relief from royalty methodology using Level 3 inputs with a royalty rate of 25% and a discount rate of 35%. The fair value of trade name of approximately \$0.4 million was determined by applying the income approach utilizing the relief from royalty methodology using Level 3 inputs with a royalty rate of 1% and a discount rate of 40%.

The financial results included in our Statements of Operations since the acquisition date and through September 30, 2022 reflected revenues of approximately \$3.6 million and net income of approximately \$0.7 million. We incurred acquisition-related costs of approximately \$0.1 million for the nine months ended September 30, 2022.

Pro-forma financial information (unaudited)

The unaudited pro forma financial data includes the historical operating results of the Company and the two acquired businesses prior to the acquisitions as if the transactions occurred on January 1, 2021. The unaudited pro forma results include increases to depreciation and amortization expense based on the purchased intangible assets and costs directly attributable to the acquisitions. The unaudited pro forma results do not purport to be indicative of results of operations as of the date hereof, for any period ended on the date hereof, or for any other future date or period; nor do they give effect to synergies, cost savings, fair market value adjustments and other changes expected as a result of the acquisitions.

The unaudited pro forma financial data on a consolidated basis as if the ecash and Intuicode acquisitions occurred on January 1, 2021 included revenue of approximately \$204.3 million and \$587.2 million and net income of approximately \$29.4 million and \$93.2 million, respectively, for the three and nine months ended September 30, 2022, and revenue of approximately \$174.9 million and \$504.1 million and net income of approximately \$6.9 million and \$65.0 million, respectively, for the three and nine months ended September 30, 2021.

5. FUNDING AGREEMENTS

We have commercial arrangements with third-party vendors to provide cash for certain of our fund dispensing devices. For the use of these funds, we pay a usage fee on either the average daily balance of funds utilized multiplied by a contractually defined usage rate or the amounts supplied multiplied by a contractually defined usage rate. These fund usage fees, reflected as interest expense within the Statements of Operations, were approximately \$2.7 million and \$5.5 million for the three and nine months ended September 30, 2022, respectively, and \$1.2 million and \$2.9 million for the three and nine months ended September 30, 2021, respectively. We are exposed to interest rate risk to the extent the applicable rates increase.

Under these agreements, the currency supplied by third party vendors remains their sole property until the funds are dispensed. As these funds are not our assets, supplied cash is not reflected in our Balance Sheets. The outstanding balance of funds provided from the third parties were approximately \$322.0 million and \$401.8 million as of September 30, 2022 and December 31, 2021, respectively.

Our primary commercial arrangement, the Contract Cash Solutions Agreement, as amended, is with Wells Fargo, N.A. (“Wells Fargo”). Wells Fargo provides us with cash up to \$300 million with the ability to increase the amount as defined within the agreement or otherwise permitted by the vault cash provider. The term of the agreement expires on June 30, 2024 and will automatically renew for additional one-year periods unless either party provides a ninety-day written notice of its intent not to renew.

We are responsible for losses of cash in the fund dispensing devices under this agreement, and we self-insure for this type of risk. There were no material losses for the three and nine months ended September 30, 2022 and 2021.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables represent short-term credit granted to customers and long-term loans receivable in connection with our Games and FinTech equipment and compliance products. Trade and loans receivables generally do not require collateral. The balance of trade and loans receivables consists of outstanding balances owed to us by gaming establishments.

The balance of trade and other receivables consisted of the following (in thousands):

| | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|---|--|---------------------------------------|
| Trade and other receivables, net | | |
| Games trade and loans receivables | \$ 83,329 | \$ 77,053 |
| FinTech trade and loans receivables | 32,118 | 21,504 |
| Contract assets ⁽¹⁾ | 22,812 | 15,221 |
| Other receivables | 2,995 | 3,695 |
| Net investment in sales-type leases | 366 | 1,331 |
| Total trade and other receivables, net | <u>141,620</u> | <u>118,804</u> |
| Non-current portion of receivables | | |
| FinTech trade and loans receivables | 12,165 | 7,340 |
| Games trade and loans receivables | 2,023 | 1,348 |
| Contract assets ⁽¹⁾ | 10,589 | 5,294 |
| Total non-current portion of receivables | <u>24,777</u> | <u>13,982</u> |
| Total trade and other receivables, current portion | <u>\$ 116,843</u> | <u>\$ 104,822</u> |

(1) Refer to [“Note 2 — Basis of Presentation and Summary of Significant Accounting Policies”](#) for a discussion on the contract assets.

Allowance for Credit Losses

The activity in our allowance for credit losses for the nine months ended September 30, 2022 and 2021 is as follows (in thousands):

| | <u>Nine Months Ended September 30,</u> | |
|---------------------------------------|--|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Beginning allowance for credit losses | \$ (5,161) | \$ (3,689) |
| Provision | (7,286) | (5,499) |
| Charge-offs and recoveries | 6,470 | 4,400 |
| Ending allowance for credit losses | <u>\$ (5,977)</u> | <u>\$ (4,788)</u> |

7. INVENTORY

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

Inventory consisted of the following (in thousands):

| | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|---|--|---------------------------------------|
| Inventory | | |
| Component parts, net of reserves of \$2,582 and \$2,422 at September 30, 2022 and December 31, 2021, respectively | \$ 40,063 | \$ 22,490 |
| Work-in-progress | 5,019 | 554 |
| Finished goods | 10,808 | 6,189 |
| Total inventory | <u>\$ 55,890</u> | <u>\$ 29,233</u> |

8. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets include the balance of prepaid expenses, deposits, debt issuance costs on our New Revolver (as defined below), restricted cash, operating lease ROU assets, and other assets. The current portion of these assets is included in prepaid expenses and other current assets and the non-current portion is included in other assets, both of which are contained within the Balance Sheets.

The balance of the current portion of prepaid expenses and other assets consisted of the following (in thousands):

| | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|--|--|---------------------------------------|
| Prepaid expenses and other current assets | | |
| Prepaid expenses | \$ 22,632 | \$ 14,389 |
| Deposits | 13,353 | 7,709 |
| Restricted cash ⁽¹⁾ | 819 | 1,616 |
| Other | 2,205 | 3,585 |
| Total prepaid expenses and other current assets | <u>\$ 39,009</u> | <u>\$ 27,299</u> |

(1) Refer to [“Note 2 — Basis of Presentation and Summary of Significant Accounting Policies”](#) for discussion on the composition of the restricted cash balance.

The balance of the non-current portion of other assets consisted of the following (in thousands):

| | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|--|--|---------------------------------------|
| Other assets | | |
| Operating lease ROU assets | \$ 18,426 | \$ 12,692 |
| Prepaid expenses and deposits | 8,531 | 4,789 |
| Debt issuance costs of revolving credit facility | 1,473 | 1,760 |
| Other | 227 | 418 |
| Total other assets | <u>\$ 28,657</u> | <u>\$ 19,659</u> |

9. PROPERTY AND EQUIPMENT

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

| | Useful Life (Years) | At September 30, 2022 | | | At December 31, 2021 | | |
|--|------------------------|-----------------------|-----------------------------|-------------------|----------------------|-----------------------------|-------------------|
| | | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Property and equipment | | | | | | | |
| Rental pool - deployed | 2-4 | \$ 273,117 | \$ 181,886 | \$ 91,231 | \$ 248,958 | \$ 166,075 | \$ 82,883 |
| Rental pool - undeployed | 2-4 | 30,833 | 24,456 | 6,377 | 23,284 | 18,285 | 4,999 |
| FinTech equipment | 1-5 | 36,820 | 25,267 | 11,553 | 32,802 | 21,257 | 11,545 |
| Leasehold and building improvements | Lease Term | 13,227 | 10,320 | 2,907 | 12,598 | 9,234 | 3,364 |
| Machinery, office, and other equipment | 1-5 | 51,539 | 33,062 | 18,477 | 45,277 | 28,075 | 17,202 |
| Total | | <u>\$ 405,536</u> | <u>\$ 274,991</u> | <u>\$ 130,545</u> | <u>\$ 362,919</u> | <u>\$ 242,926</u> | <u>\$ 119,993</u> |

Depreciation expense related to property and equipment totaled approximately \$17.4 million and \$48.3 million for the three and nine months ended September 30, 2022, respectively, and \$14.5 million and \$46.6 million for the three and nine months ended September 30, 2021, respectively.

10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the identifiable tangible and intangible assets acquired plus liabilities assumed arising from business combinations. The balance of goodwill was approximately \$707.2 million and \$682.7 million at September 30, 2022 and December 31, 2021, respectively. We have the following reporting units: (i) Games; (ii) Financial Access Services; (iii) Kiosk Sales and Services; (iv) Central Credit Services; (v) Compliance Sales and Services; and (vi) Loyalty Sales and Services.

In accordance with ASC 350 (“Intangibles—Goodwill and Other”), we test goodwill at the reporting unit level, which is identified as an operating segment or one level below, for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

We test our goodwill for impairment on October 1 each year, or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The annual impairment test is completed using either: a qualitative “Step 0” assessment based on reviewing relevant events and circumstances or a quantitative “Step 1” assessment, which determines the fair value of the reporting unit, using both an income approach that discounts future cash flows based on the estimated future results of our reporting units and a market approach that compares market multiples of comparable companies to determine whether or not any impairment exists. To the extent the carrying amount of a reporting unit is less than its estimated fair value, an impairment charge is recorded.

There was no impairment identified for our goodwill for the three and nine months ended September 30, 2022 and 2021.

Other Intangible Assets

Other intangible assets consist of the following (dollars in thousands):

| | Useful Life (Years) | At September 30, 2022 | | | At December 31, 2021 | | |
|--|------------------------|-----------------------|-----------------------------|-------------------|----------------------|-----------------------------|-------------------|
| | | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Other intangible assets | | | | | | | |
| Contract rights under placement fee agreements | 2-7 | \$ 57,946 | \$ 10,042 | \$ 47,904 | \$ 58,837 | \$ 4,237 | \$ 54,600 |
| Customer relationships | 3-14 | 324,598 | 226,164 | 98,434 | 303,238 | 206,273 | 96,965 |
| Developed technology and software | 1-6 | 383,716 | 301,164 | 82,552 | 342,309 | 280,412 | 61,897 |
| Patents, trade names and other | 2-18 | 22,050 | 20,012 | 2,038 | 20,547 | 19,415 | 1,132 |
| Total | | <u>\$ 788,310</u> | <u>\$ 557,382</u> | <u>\$ 230,928</u> | <u>\$ 724,931</u> | <u>\$ 510,337</u> | <u>\$ 214,594</u> |

Amortization expense related to other intangible assets was approximately \$15.3 million and \$43.6 million for the three and nine months ended September 30, 2022, respectively, and \$14.6 million and \$43.7 million for the three and nine months ended September 30, 2021, respectively.

We evaluate our other intangible assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. During the three and nine months ended September 30, 2022 and 2021, there were no material write-downs of intangible assets.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table presents our accounts payable and accrued expenses (in thousands):

| | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|---|--|---------------------------------------|
| Accounts payable and accrued expenses | | |
| Customer commissions payable | \$ 63,012 | \$ 57,515 |
| Contract liabilities | 44,460 | 36,238 |
| Accounts payable - trade | 38,336 | 25,453 |
| Payroll and related expenses | 25,646 | 29,125 |
| Contingent consideration and acquisition-related liabilities ⁽¹⁾ | 10,712 | — |
| Financial access processing and related expenses | 6,782 | 3,619 |
| Operating lease liabilities | 6,436 | 5,663 |
| Accrued interest | 4,316 | 9,273 |
| Accrued taxes | 3,821 | 2,756 |
| Other | 6,245 | 4,291 |
| Total accounts payable and accrued expenses | <u>\$ 209,766</u> | <u>\$ 173,933</u> |

(1) Refer to [“Note 4 — Business Combinations.”](#)

12. LONG-TERM DEBT

The following table summarizes our outstanding indebtedness (dollars in thousands):

| | <u>Maturity</u> <u>Date</u> | <u>Interest</u> <u>Rate</u> | <u>At September 30,</u> <u>2022</u> | <u>At December 31,</u> <u>2021</u> |
|--|--------------------------------|--------------------------------|--|---------------------------------------|
| Long-term debt | | | | |
| \$600 million New Term Loan | 2028 | LIBOR+2.50% | \$ 594,000 | \$ 598,500 |
| \$125 million New Revolver | 2026 | LIBOR+2.50% | — | — |
| Senior secured credit facilities | | | 594,000 | 598,500 |
| \$400 million 2021 Unsecured Notes | 2029 | 5.00% | 400,000 | 400,000 |
| Total debt | | | 994,000 | 998,500 |
| Debt issuance costs and discount | | | (15,123) | (16,975) |
| Total debt after debt issuance costs and discount | | | 978,877 | 981,525 |
| Current portion of long-term debt | | | (6,000) | (6,000) |
| Total long-term debt, net of current portion | | | <u>\$ 972,877</u> | <u>\$ 975,525</u> |

New Credit Facilities

Our Senior Secured Credit Facilities consist of: (i) a seven-year \$600 million senior secured term loan due 2028 issued at 99.75% of par (the “New Term Loan”); and (ii) a \$125 million senior secured revolving credit facility due 2026, which was undrawn at closing (the “New Revolver” and together with the New Term Loan, the “New Credit Facilities”). The Company, as borrower, entered into the credit agreement dated as of August 3, 2021 (the “Closing Date”), among the Company, the lenders party thereto and Jefferies Finance LLC, as administrative agent, collateral agent, swing line lender and a letter of credit issuer (the “New Credit Agreement”).

The interest rate per annum applicable to the New Credit Facilities will be, at the Company’s option, either the Eurodollar rate with a 0.50% LIBOR floor plus a margin of 2.50% or the base rate plus a margin of 1.50%.

The New Revolver is available for general corporate purposes, including permitted acquisitions, working capital and the issuance of letters of credit. Borrowings under the New Revolver are subject to the satisfaction of customary conditions, including the absence of defaults and the accuracy of representations and warranties. Our New Revolver remained fully undrawn as of September 30, 2022.

The Company is required to make periodic payments on the New Term Loan in an amount equal to 0.25% per quarter of the initial aggregate principal, with the final principal repayment installment on the maturity date. Interest is due in arrears on each interest payment date applicable thereto and at such other times as may be specified in the New Credit Agreement. As to any loan other than a base rate loan, the interest payment dates shall be the last day of each interest period applicable to such loan and the maturity date (provided, however, that if any interest period for a Eurodollar Rate loan exceeds three months, the respective dates that fall every three months after the beginning of such interest period shall also be interest payment dates). As to any base rate loan, commencing on the last business day of December 2021, the interest payment dates shall be last business day of each of March, June, September and December and the maturity date.

Voluntary prepayments of the New Term Loan and the New Revolver and voluntary reductions in the unused commitments are permitted in whole or in part, in minimum amounts as set forth in the New Credit Agreement governing the New Credit Facilities, with prior notice, and without premium or penalty, except that certain refinancings or repricings of the New Term Loan within six months after the Closing Date was subject to a prepayment premium of 1.00% of the principal amount repaid.

The New Credit Agreement contains certain covenants that, among other things, limit the Company's ability, and the ability of certain of its subsidiaries, to incur additional indebtedness, sell assets or consolidate or merge with or into other companies, pay dividends or repurchase or redeem capital stock, make certain investments, issue capital stock of subsidiaries, incur liens, prepay, redeem or repurchase subordinated debt, and enter into certain types of transactions with its affiliates. The New Credit Agreement also requires the Company, together with its subsidiaries, to comply with a maximum consolidated secured leverage ratio of 4.25:1.00 as of the measurement date.

The weighted average interest rate on the New Term Loan was 4.76% and 3.66% for the three and nine months ended September 30, 2022, respectively.

Senior Unsecured Notes

Our Senior Unsecured Notes (the "2021 USN") had an outstanding balance of \$400.0 million as of September 30, 2022, for which interest accrues at a rate of 5.00% per annum and is payable semi-annually in arrears on each January 15 and July 15.

Compliance with Debt Covenants

We were in compliance with the covenants and terms of the New Credit Facilities and the Senior Unsecured Notes as of September 30, 2022.

13. COMMITMENTS AND CONTINGENCIES

We are involved in various legal proceedings in the ordinary course of our business. While we believe resolution of the claims brought against us, both individually and in the aggregate, will not have a material adverse impact on our financial condition or results of operations, litigation of this nature is inherently unpredictable. Our views on these legal proceedings, including those described below, may change in the future. We intend to vigorously defend against these actions, and ultimately believe we should prevail.

Legal Contingencies

We evaluate matters and record an accrual for legal contingencies when it is both probable that a liability has been incurred and the amount or range of the loss may be reasonably estimated. We evaluate legal contingencies at least quarterly and, as appropriate, establish new accruals or adjust existing accruals to reflect: (i) the facts and circumstances known to us at the time, including information regarding negotiations, settlements, rulings, and other relevant events and developments; (ii) the advice and analyses of counsel; and (iii) the assumptions and judgment of management. Legal costs associated with such proceedings are expensed as incurred. Due to the inherent uncertainty of legal proceedings as a result of the procedural, factual, and legal issues involved, the outcomes of our legal contingencies could result in losses in excess of amounts we have accrued.

FACTA-related matter:

Geraldine Donahue, et al. v. Everi Payments Inc., et al. ("Donahue") is a putative class action matter filed on December 12, 2018, in the Circuit Court of Cook County, Illinois County Division, Chancery Division. The original defendant was dismissed and Everi Holdings and FinTech (the "Defendants") were substituted as the defendants on April 22, 2019. The plaintiff, on behalf of herself and others similarly situated, alleges that Everi Holdings and Everi FinTech (i) have violated certain provisions of FACTA by their failure, as agent to the original defendant, to properly truncate patron credit card numbers when printing financial access receipts as required under FACTA, and (ii) have been unjustly enriched through the charging of service fees for transactions conducted at the original defendant's facilities. The plaintiff sought an award of statutory damages, attorneys' fees,

and costs. The parties settled this matter on a nationwide class basis. On December 3, 2020, the court entered the Final Order and Judgment approving the settlement and dismissing all claims asserted against the Defendants with prejudice. Everi Holdings and Everi FinTech have paid all funds required pursuant to the settlement. Distributions were made to class members and remaining unclaimed funds were distributed to nonprofit charitable organizations in compliance with the court's October 4, 2021 approval, and this matter is now closed.

NRT matter:

NRT Technology Corp., et al. v. Everi Holdings Inc., et al. is a civil action filed on April 30, 2019 against Everi Holdings and Everi FinTech in the United States District Court for the District of Delaware by NRT Technology Corp. and NRT Technology, Inc., alleging monopolization of the market for unmanned, integrated kiosks in violation of federal antitrust laws, fraudulent procurement of patents on functionality related to such unmanned, integrated kiosks and sham litigation related to prior litigation brought by Everi FinTech (operating as Global Cash Access Inc.) against the plaintiff entities. The plaintiffs are seeking compensatory damages, treble damages, and injunctive and declaratory relief. Discovery is closed. The Court removed the case from the September trial calendar and requested briefs from the parties on relevant legal issues. Briefing is underway. Due to the current stage of the litigation, we are currently unable to estimate the probability of the outcome of this matter or reasonably estimate the range of possible damages, if any.

Zenergy Systems, LLC matter:

Zenergy Systems, LLC v. Everi Payments Inc. is a civil action filed on May 29, 2020, against Everi FinTech in the United States District Court for the District of Nevada, Clark County by Zenergy Systems, LLC, alleging breach of contract, breach of a non-disclosure agreement, conversion, breach of the covenant of good faith and fair dealing, and breach of a confidential relationship related to a contract with Everi FinTech that expired in November 2019. The plaintiff is seeking compensatory and punitive damages. Everi FinTech has counterclaimed against Zenergy alleging breach of contract, breach of implied covenant of good faith and fair dealing, and for declaratory relief. The case is set for trial in February 2023. Due to the current stage of the litigation, we are currently unable to estimate the probability of the outcome of this matter or reasonably estimate the range of possible damages, if any.

Sadie Saavedra matter:

Sadie Saavedra, et al. v. Everi Payments Inc., et al. is a civil action filed on August 30, 2021, against Everi Holdings and Everi FinTech in the United States District Court, Central District of California (Western Division) by Sadie Saavedra, individually and on behalf of a class of similarly situated individuals, alleging violations of the Unfair Competition Law (California Business & Professions Code § 17200) and unjust enrichment. The plaintiffs allege that certain of Everi's ATMs screen are deceptive and designed to maximize the number of transaction fees and mislead consumers into incurring fees for transactions. The plaintiffs are seeking restitution, injunctive relief and attorneys' fees. On April 11, 2022, the Court entered an Order granting the Motion to Dismiss on behalf of Everi Holdings and Everi FinTech. The Plaintiff did not file a timely appeal, and as a result, this matter is closed.

Sightline Payments matter:

Sightline Payments LLC v. Everi Holdings Inc., et al. is a civil action filed on September 30, 2021, against Everi Holdings, Everi FinTech, Everi Games Holding Inc., and Everi Games (collectively referred to herein as "Everi") in the United States District Court, Western District of Texas (Waco Division) by Sightline Payments LLC alleging patent infringement in violation of 35 U.S.C. § 271 et seq. The plaintiff's complaint alleges that Everi's CashClub Wallet product infringes on certain patents owned by the plaintiff. The plaintiff is seeking compensatory damages. Everi filed a Motion to Dismiss or Transfer for Lack of Venue. On June 1, 2022, the Court granted Everi's Motion to Dismiss ruling that the Western District of Texas was not the proper venue for an action against Everi Fintech, Everi Holdings and Everi Games. The Court granted plaintiff 14 days to file an amended complaint as to Everi Games Holding Inc. Plaintiff did not file an amended complaint. On June 23, 2022, the plaintiff, Sightline Payments LLC, filed an appeal of the Court's Order. The appeal is underway. Due to the current stage of the litigation, we are currently unable to estimate the probability of the outcome of this matter or reasonably estimate the range of possible damages, if any.

Mary Parrish matter:

Mary Parrish v. Everi Holdings Inc., et al. is a civil action filed on December 28, 2021, against Everi Holdings and Everi FinTech in the District Court of Nevada, Clark County by Mary Parrish alleging violation of the Fair and Accurate Credit Transactions Act (FACTA) amendment to the Fair Credit Reporting Act (FCRA). Plaintiff's complaint alleges she received a printed receipt for cash access services performed at an Everi Payments' ATM which displayed more than four (4) digits of the account number. Plaintiff seeks statutory damages, punitive damages, injunctive relief, attorneys' fees, and other relief. Everi filed a Petition for Removal to the United States District Court, District of Nevada. Thereafter, Everi filed a Motion to Dismiss, which is pending in the United States District Court. Due to the early stages of the litigation, we are currently unable to estimate the probability of the outcome of this matter or reasonably estimate the range of possible damages, if any.

In addition, we have commitments with respect to certain lease obligations discussed in ["Note 3 — Leases"](#) and installment payments under our purchase agreements discussed in ["Note 4 — Business Combinations."](#)

14. STOCKHOLDERS' EQUITY

On May 4, 2022, our Board of Directors authorized and approved a new share repurchase program in an amount not to exceed \$150.0 million pursuant to which we may purchase outstanding Company common stock in open market or privately negotiated transactions over a period of eighteen (18) months through November 4, 2023. The actual number of shares to be purchased will depend upon market conditions and is subject to available liquidity, general market and economic conditions, alternative uses for the capital and other factors. All shares purchased will be held in the Company's treasury for possible future use. As of September 30, 2022, Everi had approximately 90.0 million shares issued and outstanding, net of 29.3 million shares held in the Company's treasury. There is no minimum number of shares that the Company is required to repurchase, and the program may be suspended or discontinued at any time without prior notice. This new repurchase program supersedes and replaces, in its entirety, the previous share repurchase program.

There were 0.9 million and 2.9 million shares repurchased at an average price of \$17.29 and \$16.87 per share for an aggregate amount of \$16.0 million and \$49.4 million during the three and nine ended September 30, 2022, respectively. The remaining availability under the May 2022 \$150.0 million share repurchase program was \$100.6 million as of September 30, 2022. There were no share repurchases during the three and nine months ended September 30, 2021.

15. WEIGHTED AVERAGE SHARES OF COMMON STOCK

The weighted average number of common stock shares outstanding used in the computation of basic and diluted earnings per share is as follows (in thousands):

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---|---|----------------|--|---------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Weighted average shares | | | | |
| Weighted average number of common shares outstanding - basic | 90,014 | 90,322 | 91,039 | 88,688 |
| Potential dilution from equity awards ⁽¹⁾ | 6,422 | 11,037 | 7,267 | 10,893 |
| Weighted average number of common shares outstanding - diluted⁽¹⁾ | <u>96,436</u> | <u>101,359</u> | <u>98,306</u> | <u>99,581</u> |

(1) There were 0.2 million and 0.1 million shares that were anti-dilutive under the treasury stock method for the three and nine ended September 30, 2022, respectively. There were no shares that were anti-dilutive under the treasury stock method for the three and nine months ended September 30, 2021.

16. SHARE-BASED COMPENSATION

Equity Incentive Awards

Generally, we grant the following types of awards: (i) restricted stock units with either time- or performance-based criteria; (ii) time-based options; and (iii) market-based options. We estimate forfeiture amounts based on historical patterns.

A summary of award activity is as follows (in thousands):

| | Stock Options | Restricted Stock Units |
|--|---------------|------------------------|
| Outstanding, December 31, 2021 | 7,073 | 3,540 |
| Granted | 81 | 1,276 |
| Exercised options or vested shares | (284) | (1,978) |
| Canceled or forfeited | (25) | (34) |
| Outstanding, September 30, 2022 | 6,845 | 2,804 |

There were approximately 3.7 million awards of our common stock available for future equity grants under our existing equity incentive plans as of September 30, 2022.

17. INCOME TAXES

The income tax provision for the three and nine months ended September 30, 2022, reflected an effective income tax rate of 26.0% and 24.2%, respectively, which was greater than the statutory federal rate of 21.0%, primarily due to state taxes, compensation deduction limitations, a net operating loss limitation and an accrual for a foreign withholding tax, partially offset by both a research credit and the benefit from stock option exercises. The income tax benefit for the three months ended September 30, 2021, reflected an effective income tax rate of negative 5.0%. The income tax provision for the nine months ended September 30, 2021, reflected an effective income tax rate of 2.0%. Those rates were less than the statutory federal rate of 21.0%, primarily due to a decrease in our valuation allowance for our deferred tax assets and the benefit from stock option exercises.

We have analyzed filing positions in all of the federal, state, and foreign jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. As of September 30, 2022, we recorded approximately \$2.2 million of unrecognized tax benefits, all of which would impact our effective tax rate, if recognized. We do not anticipate that our unrecognized tax benefits will materially change within the next 12 months. We have not accrued any penalties and interest for our unrecognized tax benefits. We may, from time to time, be assessed interest or penalties by tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. Our policy for recording interest and penalties associated with audits and unrecognized tax benefits is to record such items as a component of income tax in our Statements of Operations.

18. SEGMENT INFORMATION

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-making group (the “CODM”). Our CODM generally consists of the Chief Executive Officer and the Chief Financial Officer. Our CODM allocates resources and measures profitability based on our operating segments, which are managed and reviewed separately, as each represents products and services that can be sold separately to our customers. Our segments are monitored by management for performance against our internal forecasts.

We have reported our financial performance based on our segments in both the current and prior periods. Our CODM determined that our operating segments for conducting business are: (i) Games and (ii) FinTech:

- Everi Games primarily provides gaming operators with gaming technology products and services, including: (i) gaming machines, primarily comprising Class II and Class III slot machines and HHR gaming machines placed under participation or fixed-fee lease arrangements or sold to casino customers; (ii) provision and maintenance of the central determinant systems for the VLTs installed in the State of New York and similar technology in certain tribal jurisdictions; and (iii) B2B digital online gaming activities.
- Everi FinTech provides gaming operators with financial technology and entertainment products and services, including: (i) financial access and related services supporting digital, cashless and physical cash options across mobile, assisted and self-service channels; (ii) loyalty and marketing software and tools, RegTech software solutions, other information-related products and services, and hardware maintenance services; and (iii) associated casino patron self-service hardware that utilizes our financial access, software and other services.

Corporate overhead expenses have been allocated to the segments either through specific identification or based on another reasonable methodology. In addition, we record depreciation and amortization expenses to the business segments.

Our business is predominantly domestic with no specific regional concentrations and no significant assets in foreign locations.

The following tables present segment information (in thousands)*:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|----------------------------------|------------------|---------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Games | | | | |
| Revenues | | | | |
| Gaming operations | \$ 74,979 | \$ 71,580 | \$ 219,311 | \$ 202,941 |
| Gaming equipment and systems | 37,500 | 24,220 | 103,766 | 68,298 |
| Gaming other | 41 | 33 | 126 | 82 |
| Total revenues | 112,520 | 95,833 | 323,203 | 271,321 |
| Costs and expenses | | | | |
| Cost of revenues⁽¹⁾ | | | | |
| Gaming operations | 6,557 | 5,675 | 18,674 | 15,776 |
| Gaming equipment and systems | 22,545 | 13,503 | 62,721 | 39,058 |
| Cost of revenues | 29,102 | 19,178 | 81,395 | 54,834 |
| Operating expenses | 19,860 | 16,711 | 57,886 | 48,871 |
| Research and development | 11,298 | 6,445 | 28,395 | 17,966 |
| Depreciation | 15,006 | 12,495 | 41,321 | 41,122 |
| Amortization | 11,472 | 10,805 | 31,744 | 32,464 |
| Total costs and expenses | 86,738 | 65,634 | 240,741 | 195,257 |
| Operating income | \$ 25,782 | \$ 30,199 | \$ 82,462 | \$ 76,064 |

(1) Exclusive of depreciation and amortization.

* Rounding may cause variances.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|----------------------------------|------------------|---------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| FinTech | | | | |
| Revenues | | | | |
| Financial access services | \$ 53,296 | \$ 46,421 | \$ 154,051 | \$ 129,973 |
| Software and other | 22,192 | 17,024 | 59,056 | 49,874 |
| Hardware | 16,310 | 9,024 | 40,846 | 28,829 |
| Total revenues | 91,798 | 72,469 | 253,953 | 208,676 |
| Costs and expenses | | | | |
| Cost of revenues⁽¹⁾ | | | | |
| Financial access services | 2,760 | 1,830 | 7,405 | 4,863 |
| Software and other | 1,163 | 1,063 | 2,984 | 3,196 |
| Hardware | 10,771 | 5,380 | 27,074 | 17,078 |
| Cost of revenues | 14,694 | 8,273 | 37,463 | 25,137 |
| Operating expenses | 36,494 | 30,410 | 103,344 | 84,449 |
| Research and development | 5,505 | 3,153 | 14,991 | 8,833 |
| Depreciation | 2,438 | 1,968 | 7,021 | 5,449 |
| Amortization | 3,831 | 3,791 | 11,838 | 11,216 |
| Total costs and expenses | 62,962 | 47,595 | 174,657 | 135,084 |
| Operating income | \$ 28,836 | \$ 24,874 | \$ 79,296 | \$ 73,592 |

(1) Exclusive of depreciation and amortization.

* Rounding may cause variances.

| | At September 30, | At December 31, |
|---------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Total assets | | |
| Games | \$ 909,973 | \$ 913,880 |
| FinTech | 759,550 | 721,770 |
| Total assets | \$ 1,669,523 | \$ 1,635,650 |

Major Customers. No single customer accounted for more than 10% of our revenues for the three and nine months ended September 30, 2022 and 2021. Our five largest customers accounted for approximately 14% of our revenues for the three and nine months ended September 30, 2022, and 16% for the three and nine months ended September 30, 2021.

19. SUBSEQUENT EVENTS

On October 17, 2022 (the “Closing Date”), the Company acquired certain strategic assets of Venuetize, Inc. (“Venuetize”), a privately owned innovator of mobile-first technologies that provide an advanced guest engagement and m-commerce platform for the sports, entertainment and hospitality industries.

The Venuetize acquisition of certain products and services represents a strategic expansion within and beyond casino gaming of Everi’s current suite of solutions for the FinTech segment. The acquisition will help to elevate the capabilities of mobile and wallet offerings, and provide Everi with complementary assets and an established customer base expected to enable further growth into additional entertainment, sports and hospitality venues, and also to create new crossover marketing opportunities within the Company’s existing footprint.

Under the terms of the asset purchase agreement, the Company made payments totaling \$18 million by the time of closing. Subject to achieving certain revenue growth targets over the subsequent thirty-month period post-closing, additional contingent performance payments are expected to be between \$2 million and \$6 million.

The transaction will be accounted for as a business combination under the acquisition method of accounting in accordance with GAAP. As a result of the timing of the acquisition, the initial accounting treatment is still being determined; and accordingly, certain disclosures were not available at the time the financial statements were issued. The acquisition is not expected to have a material impact on our results of operations or financial condition in 2022.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

Cautionary Information Regarding Forward-Looking Statements

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995, as do other materials or oral statements we release to the public. Forward-looking statements are neither historical facts nor assurances of future performance, but instead are based only on our current beliefs, expectations, and assumptions regarding the future of our business, plans and strategies, projections, anticipated events and trends, the economy, and other future conditions, as of the date on which this report is filed. Forward-looking statements often, but do not always, contain words such as “expect,” “anticipate,” “aim to,” “designed to,” “intend,” “plan,” “believe,” “goal,” “target,” “future,” “assume,” “estimate,” “indication,” “seek,” “project,” “may,” “can,” “could,” “should,” “favorably positioned,” or “will” and other words and terms of similar meaning.

Forward-looking statements are subject to inherent risks, uncertainties, and changes in circumstances that are often difficult to predict and many of which are beyond our control, including, but not limited to, statements regarding: trends, developments, and uncertainties impacting our business, including our ability to withstand: global supply chain disruption; inflationary impact on supply chain costs; changes in global market, business and regulatory conditions arising as a result of the Coronavirus Disease 2019 (“COVID-19”) global pandemic, including any related public health confidence and availability of discretionary spending income of casino patrons as well as expectations for the re-opening of casinos; product innovations that address customer needs in a new and evolving operating environment; to regain or maintain revenue, earnings, and cash flow momentum, and to enhance shareholder value in the long-term; trends in gaming establishment and patron usage of our products; benefits realized by using our products and services; benefits and/or costs associated with mergers, acquisitions, and/or strategic alliances; product development, including the release of new game features, additional games, and system releases in the future; regulatory approvals; gaming and financial regulatory and legal, card association, and statutory compliance and changes; the implementation of new or amended card association and payment network rules or interpretations; consumer collection activities; competition (including consolidations); tax liabilities; goodwill impairment charges; international expansion; resolution of litigation or government investigations; our dividend policy; new customer contracts and contract renewals; financial performance and results of operations (including revenue, expenses, margins, earnings, cash flow, and capital expenditures); inflationary impact on labor costs and retention; interest rates and interest expense; borrowings and debt repayments; and equity incentive activity and compensation expense.

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

Our actual results and financial condition may differ materially from those indicated in forward-looking statements, and important factors that could cause them to do so include, but are not limited to, the following: our ability to generate profits in the future and to create incremental value for shareholders; our ability to withstand inflationary and other factors that pressure discretionary consumer spending; our ability to execute on mergers, acquisitions and/or strategic alliances, including our ability to integrate and operate such acquisitions or alliances consistent with our forecasts in order to achieve future growth; our ability to execute on key initiatives and deliver ongoing improvements; expectations regarding growth for the Company’s installed base and daily win per unit; expectations regarding placement fee arrangements; inaccuracies in underlying operating assumptions; the impact of the ongoing COVID-19 global pandemic on our business, operations and financial condition, including (i) actions taken by international, federal, state, tribal and municipal governmental and regulatory agencies to contain the COVID-19 public health emergency or mitigate its impact, (ii) the direct and indirect economic effects of COVID-19 and measures to contain it, including directives, orders or similar actions by international, federal, state, tribal and municipal governmental and regulatory agencies to regulate freedom of movement and business operations such as travel restrictions, border closures, business closures, limitations on public gatherings, quarantines and shelter-in-place orders as well as re-opening safety protocols; changes in global market, business, and regulatory conditions arising as a result of the COVID-19 global pandemic; our history of net losses and our ability to generate profits in the future; our leverage and the related covenants that restrict our operations; our ability to generate sufficient cash to service all of our indebtedness, fund working capital, and capital expenditures; our ability to withstand unanticipated impacts of a pandemic outbreak of uncertain duration;

our ability to withstand the loss of revenue during the closure of our customers' facilities; our ability to maintain our current customers; expectations regarding customers' preferences and demands for future product and service offerings; the overall growth of the gaming industry, if any; our ability to replace revenue associated with terminated contracts; margin degradation from contract renewals; our ability to comply with the Europay, MasterCard, and Visa global standard for cards equipped with security chip technology; our ability to successfully introduce new products and services, including third-party licensed content; gaming establishment and patron preferences; failure to control product development costs and create successful new products; anticipated sales performance; our ability to prevent, mitigate, or timely recover from cybersecurity breaches, attacks, and compromises; national and international economic and industry conditions; changes in gaming regulatory, card association, and statutory requirements; regulatory and licensing difficulties, competitive pressures and changes in the competitive environment; operational limitations; gaming market contraction; changes to tax laws; uncertainty of litigation outcomes; interest rate fluctuations; business prospects; unanticipated expenses or capital needs; technological obsolescence and our ability to adapt to evolving technologies; our ability to comply with our debt covenants and service outstanding debt; employee turnover and retention; our ability to comply with regulatory requirements under the Payment Card Industry ("PCI") Data Security Standards and maintain our certified status; and those other risks and uncertainties discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report").

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report and the information included in our other press releases, reports, and other filings with the SEC. Understanding the information contained in these filings is important in order to fully understand our reported financial results and our business outlook for future periods.

Overview

Everi is a leading supplier of imaginative entertainment and trusted technology solutions for the casino and digital gaming industry. Everi's mission is to lead the gaming industry through the power of people, imagination and technology. Focused on player engagement and assisting our casino customers operate more efficiently, the Company develops entertaining game content and gaming machines, gaming systems and services for land-based and iGaming operators. The Company is also a preeminent and comprehensive provider of trusted financial technology solutions that power the casino floor while improving operational efficiencies and fulfilling regulatory compliance requirements, including products and services that facilitate convenient and secure cash and cashless financial transactions, self-service player loyalty tools and applications, and regulatory and intelligence software.

Everi reports its financial performance, and organizes and manages its operations, across the following two business segments: (i) Games and (ii) Financial Technology Solutions ("FinTech").

Everi Games provides gaming operators with gaming technology and entertainment products and services, including: (i) gaming machines, primarily comprising Class II and Class III slot machines and Historic Horse Racing ("HHR") gaming machines placed under participation or fixed-fee lease arrangements or sold to casino customers; (ii) providing and maintaining the central determinant systems for the video lottery terminals ("VLTs") installed in the State of New York and similar technology in certain tribal jurisdictions; and (iii) business-to-business ("B2B") digital online gaming activities.

Everi FinTech provides gaming operators with financial technology products and services, including: (i) financial access and related services supporting digital, cashless and physical cash options across mobile, assisted and self-service channels; (ii) loyalty and marketing software and tools, regulatory and compliance ("RegTech") software solutions, other information-related products and services, and hardware maintenance services; and (iii) associated casino patron self-service hardware that utilizes our financial access, software and other services. Our services operate as part of an end-to-end security suite to protect against cyber-related attacks and maintain the necessary secured environments to maintain compliance with applicable regulatory requirements. These solutions include: access to cash and cashless funding at gaming facilities via Automated Teller Machine ("ATM") debit withdrawals, credit card financial access transactions, and point of sale ("POS") debit card purchases at casino cages, kiosk and mobile POS devices; accounts for the CashClub Wallet, check warranty services, self-service loyalty and fully integrated kiosk maintenance services; self-service loyalty tools and promotion management software; compliance, audit, and data software; casino credit data and reporting services; marketing and promotional offering subscription-based services; and other ancillary offerings.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic negatively impacted the global economy, disrupted global supply chains, and created significant volatility in the financial markets. Initially, it lowered equity market valuations and raised the cost of borrowing funds, increased unemployment levels, and caused temporary, and in certain cases, permanent closures of many businesses. The gaming industry was not immune to these factors as our casino customers closed their gaming establishments in the first quarter of 2020. As the initial impacts from the COVID-19 pandemic subsided, most of our casino customers began to reopen their operations over the remainder of 2020 and throughout 2021. While some of our customers' locations have permanently ceased operations, nearly all of our customer base has resumed operations as of September 30, 2022. In addition, the impacts of employment constraints and supply chain disruptions continue to challenge our customers and us.

Since the onset of COVID-19, we have implemented measures to mitigate our exposure throughout the global pandemic. While many pandemic impacts have subsided, further uncertainty still challenges our customers and us as a result of COVID-19 and the resurgence of its variants. We continue to evaluate our business strategies and monitor the impacts of the global pandemic, employment constraints and supply chain disruptions on our results of operations and financial condition, and make adjustments to our business, accordingly.

Our revenues for the third quarter of 2022 exceeded the third quarter of 2021. While gaming industry conditions have improved significantly compared to the start of the pandemic, it is unclear if customers' industry capital allocations will fully return to and remain at pre-COVID levels. With macro-economic volatility and pandemic-related challenges still in effect, we expect that demand and supply for our products and services could be tempered in the short-term, to the extent gaming activity decreases at our customers' locations, or fails to increase at expected rates, and to the extent our customers decide to restrict their capital spending as a result of uncertainty in the industry, or that supply chain disruptions might impact customer deliveries or otherwise.

The impact of the COVID-19 pandemic also exacerbates the risks disclosed in our Annual Report, including, but not limited to: our ability to generate revenues and, earn profits, our ability to service existing and attract new customers and maintain our

overall competitiveness in the market; the potential for significant fluctuations in demand for our products and services; overall trends in the gaming industry impacting our business, and potential volatility in our stock price, among other concerns.

Additional Items Impacting Comparability of Results of Operations

Our Financial Statements included in this report reflect the following additional items impacting the comparability of results of operations:

During the first half of 2022, we acquired the stock of ecash Holdings Pty Limited and wholly-owned subsidiaries (collectively “ecash”) and Intuicode Gaming Corporation (“Intuicode”), and made an initial cash payment of \$15.0 million and \$12.5 million at the closing of each transaction, respectively. The acquisitions did not have a material impact on our results of operations as of and for the period ended September 30, 2022.

In 2021, we decreased our valuation allowance for our deferred tax assets by approximately \$67.9 million, of which \$63.5 million was released during the fourth quarter of 2021, due to the removal of the full valuation allowance on our federal and certain states deferred tax assets.

During the third quarter of 2021, we completed a refinancing of our prior credit facilities and entered into a credit agreement and a letter of credit (the “New Credit Agreement”). The New Credit Agreement provides for: (i) a seven-year \$600 million senior secured term loan due 2028 issued at 99.75% of par (the “New Term Loan”); and (ii) a \$125 million senior secured revolving credit facility due 2026, which was undrawn at closing (the “New Revolver” and together with the New Term Loan, the “New Credit Facilities”). The fees associated with the New Credit Facilities were approximately \$13.9 million, which included discounts of approximately \$1.5 million.

During the third quarter of 2021, we completed a refinancing of our 7.50% senior unsecured notes due in 2025 (the “2017 Unsecured Notes”) with an offering of \$400 million in aggregate principal, issued at par, of 5.00% senior unsecured notes due 2029 (the “2021 Unsecured Notes”). The fees associated with the 2021 Unsecured Notes included debt issuance costs of approximately \$5.9 million.

During the third quarter of 2021, in connection with these refinancing and repayment activities, the total fees were approximately \$40.6 million, comprised of approximately \$20.8 million of early redemption penalties and make-whole interest associated with the prior debt instruments and approximately \$19.8 million of capitalized debt issuance costs attributable to the new debt instruments.

During the third quarter of 2021, in connection with these refinancing and repayment activities, we recorded a loss on extinguishment of debt of approximately \$34.4 million, comprised of cash charges of approximately \$20.8 million for prepayment penalties and make-whole interest and non-cash charges of approximately \$13.6 million related to the write-off of unamortized debt issuance costs and discounts associated with the prior credit facility (the “Prior Term Loan”), the prior incremental term loan facility (the “Prior Incremental Term Loan”) and the 2017 Unsecured Notes.

As a result of these events, together with any impacts of COVID-19, macro-economic volatility, employment constraints and supply chain disruptions, our results of operations and earnings per share in the periods covered by our Financial Statements may not be directly comparable.

Trends and Developments Impacting our Business

In addition to the factors discussed above, we refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trends and Developments Impacting our Business” in our Annual Report, which is incorporated herein by reference.

Operating Segments

We report our financial performance within two operating segments: (i) Games; and (ii) FinTech. For additional information on our segments, see [“Note 2 — Basis of Presentation and Summary of Significant Accounting Policies”](#) and [“Note 18 — Segment Information”](#) included in *Part I, Item 1: Financial Statements* of this Quarterly Report on Form 10-Q.

Results of Operations

Three months ended September 30, 2022 compared to three months ended September 30, 2021

The following table presents our Results of Operations as reported for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 (amounts in thousands)*:

| | Three Months Ended | | | | 2022 vs 2021 | |
|---|--------------------|--------------|--------------------|--------------|-----------------|--------------|
| | September 30, 2022 | | September 30, 2021 | | \$ | % |
| | \$ | % | \$ | % | | |
| Revenues | | | | | | |
| Games revenues | | | | | | |
| Gaming operations | \$ 74,979 | 37 % | \$ 71,580 | 43 % | \$ 3,399 | 5 % |
| Gaming equipment and systems | 37,500 | 18 % | 24,220 | 14 % | 13,280 | 55 % |
| Gaming other | 41 | — % | 33 | — % | 8 | 24 % |
| Games total revenues | 112,520 | 55 % | 95,833 | 57 % | 16,687 | 17 % |
| FinTech revenues | | | | | | |
| Financial access services | 53,296 | 26 % | 46,421 | 28 % | 6,875 | 15 % |
| Software and other | 22,192 | 11 % | 17,024 | 10 % | 5,168 | 30 % |
| Hardware | 16,310 | 8 % | 9,024 | 5 % | 7,286 | 81 % |
| FinTech total revenues | 91,798 | 45 % | 72,469 | 43 % | 19,329 | 27 % |
| Total revenues | 204,318 | 100 % | 168,302 | 100 % | 36,016 | 21 % |
| Costs and expenses | | | | | | |
| Games cost of revenues⁽¹⁾ | | | | | | |
| Gaming operations | 6,557 | 3 % | 5,675 | 3 % | 882 | 16 % |
| Gaming equipment and systems | 22,545 | 11 % | 13,503 | 8 % | 9,042 | 67 % |
| Games total cost of revenues | 29,102 | 14 % | 19,178 | 11 % | 9,924 | 52 % |
| FinTech cost of revenues⁽¹⁾ | | | | | | |
| Financial access services | 2,760 | 1 % | 1,830 | 1 % | 930 | 51 % |
| Software and other | 1,163 | 1 % | 1,063 | 1 % | 100 | 9 % |
| Hardware | 10,771 | 5 % | 5,380 | 3 % | 5,391 | 100 % |
| FinTech total cost of revenues | 14,694 | 7 % | 8,273 | 5 % | 6,421 | 78 % |
| Operating expenses | 56,354 | 28 % | 47,121 | 28 % | 9,233 | 20 % |
| Research and development | 16,803 | 8 % | 9,598 | 6 % | 7,205 | 75 % |
| Depreciation | 17,444 | 9 % | 14,463 | 9 % | 2,981 | 21 % |
| Amortization | 15,303 | 7 % | 14,596 | 9 % | 707 | 5 % |
| Total costs and expenses | 149,700 | 73 % | 113,229 | 67 % | 36,471 | 32 % |
| Operating income | 54,618 | 27 % | 55,073 | 33 % | (455) | (1)% |
| Other expenses | | | | | | |
| Interest expense, net of interest income | 14,880 | 7 % | 14,257 | 8 % | 623 | 4 % |
| Loss on extinguishment of debt | — | — % | 34,389 | 20 % | (34,389) | (100)% |
| Total other expenses | 14,880 | 7 % | 48,646 | 29 % | (33,766) | (69)% |
| Income before income tax | 39,738 | 20 % | 6,427 | 4 % | 33,311 | 518 % |

(1) Exclusive of depreciation and amortization.

* Rounding may cause variances.

| | Three Months Ended | | | | 2022 vs 2021 | |
|--------------------------------|--------------------|-------------|--------------------|------------|------------------|--------------|
| | September 30, 2022 | | September 30, 2021 | | \$ | % |
| | \$ | % | \$ | % | | |
| Income tax provision (benefit) | 10,329 | 5 % | (319) | — % | 10,648 | 3338 % |
| Net income | \$ 29,409 | 14 % | \$ 6,746 | 4 % | \$ 22,663 | 336 % |

* Rounding may cause variances.

We continued to experience a certain level of recovery from the global pandemic, as a result, our revenues, costs and expenses were stronger in the current year period, as compared to the same period in the prior year.

Revenues

Total revenues increased by approximately \$36.0 million, or 21%, to approximately \$204.3 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to the higher Games and FinTech revenues described below.

Games revenues increased by approximately \$16.7 million, or 17%, to approximately \$112.5 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to: (i) an increase in the number of machines sold with a higher average selling price per unit, which resulted in additional gaming equipment revenues; (ii) the contributions from the recently acquired historical horse racing development company, Intuicode, reflected mostly in our gaming operations revenues, and also in our gaming equipment revenues; and (iii) an increase in our online digital solutions as a result of growth in the customer base, which were reflected in our gaming operations revenues.

FinTech revenues increased by approximately \$19.3 million, or 27%, to approximately \$91.8 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to: (i) an increase in both transaction and dollar volumes attributable to new and renewed business from our financial access services revenues; (ii) contributions from the recently acquired Australian cash handling and financial payment solutions company, ecash, reflected mostly in our hardware revenues and also in our software and financial access services revenues; and (iii) an increase in unit sales of our kiosks and certain loyalty devices reflected in our hardware revenues.

Costs and Expenses

Total costs and expenses increased by approximately \$36.5 million, or 32%, to approximately \$149.7 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to higher Games and FinTech costs and expenses described below.

Games cost of revenues increased by approximately \$9.9 million, or 52%, to approximately \$29.1 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to the additional variable costs associated with the higher unit sales from our gaming equipment and systems activities and increased supply chain related costs. There were also additional costs associated with our installed base from our gaming operations activities.

FinTech cost of revenues increased by approximately \$6.4 million, or 78%, to approximately \$14.7 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to additional variable costs associated with the higher unit sales from our hardware revenues, increased supply chain related costs and additional check warranty expenses from a greater volume of check approvals within our financial access services activities.

Operating expenses increased by approximately \$9.2 million, or 20%, to approximately \$56.4 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to higher payroll and related expenses from employees acquired through acquisitions completed during the year in our Games and FinTech segments and organic employee increases to support the growth of our operations. We also incurred higher employee travel and related costs resulting from more normalized operations of our customers in our Games and FinTech segments.

Research and development expenses increased by approximately \$7.2 million, or 75%, to approximately \$16.8 million for the three months ended September 30, 2022, as compared to the same period in the prior year. This increase was primarily the result of the growth in our operations and the continued investment in new products in our Games and FinTech segments.

Depreciation expense increased by approximately \$3.0 million, or 21%, to approximately \$17.4 million for the three months ended September 30, 2022, as compared to the same period in the prior year, and was primarily associated with an increase in capital spending resulting in a higher asset base in our Games segment.

Primarily as a result of the factors described above, our operating income was relatively consistent for the three months ended September 30, 2022, as compared to the same period in the prior year. The operating income margin was 27% for the three months ended September 30, 2022 compared to 33% for the same period in the prior year.

The income tax provision was \$10.3 million for the three months ended September 30, 2022, an increase of approximately \$10.6 million, as compared to an income tax benefit of \$0.3 million for the same period in the prior year. The income tax provision reflected an effective income tax rate of 26.0% for the three months ended September 30, 2022, which was greater than the statutory federal rate of 21.0%, primarily due to state taxes and compensation deduction limitations and a net operating loss limitation, partially offset by both a research credit and the benefit from stock option exercises. The income tax benefit reflected an effective income tax rate of negative 5.0% for the same period in the prior year, which was less than the statutory federal rate of 21.0%, primarily due to a decrease in our valuation allowance due to book income during the period, and the benefit from stock option exercises.

Primarily as a result of the factors described above, we had net income of approximately \$29.4 million for the three months ended September 30, 2022, as compared to net income of approximately \$6.7 million for the same period in the prior year.

Results of Operations

Nine months ended September 30, 2022 compared to nine months ended September 30, 2021

The following table presents our Results of Operations as reported for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 (amounts in thousands)*:

| | Nine Months Ended | | | | | |
|---|--------------------|--------------|--------------------|--------------|-----------------|--------------|
| | September 30, 2022 | | September 30, 2021 | | 2022 vs 2021 | |
| | \$ | % | \$ | % | \$ | % |
| Revenues | | | | | | |
| Games revenues | | | | | | |
| Gaming operations | \$ 219,311 | 38 % | \$ 202,941 | 42 % | \$ 16,370 | 8 % |
| Gaming equipment and systems | 103,766 | 18 % | 68,298 | 14 % | 35,468 | 52 % |
| Gaming other | 126 | — % | 82 | — % | 44 | 54 % |
| Games total revenues | 323,203 | 56 % | 271,321 | 57 % | 51,882 | 19 % |
| FinTech revenues | | | | | | |
| Financial access services | 154,051 | 27 % | 129,973 | 27 % | 24,078 | 19 % |
| Software and other | 59,056 | 10 % | 49,874 | 10 % | 9,182 | 18 % |
| Hardware | 40,846 | 7 % | 28,829 | 6 % | 12,017 | 42 % |
| FinTech total revenues | 253,953 | 44 % | 208,676 | 43 % | 45,277 | 22 % |
| Total revenues | 577,156 | 100 % | 479,997 | 100 % | 97,159 | 20 % |
| Costs and expenses | | | | | | |
| Games cost of revenues⁽¹⁾ | | | | | | |
| Gaming operations | 18,674 | 3 % | 15,776 | 3 % | 2,898 | 18 % |
| Gaming equipment and systems | 62,721 | 11 % | 39,058 | 8 % | 23,663 | 61 % |
| Games total cost of revenues | 81,395 | 14 % | 54,834 | 11 % | 26,561 | 48 % |
| FinTech cost of revenues⁽¹⁾ | | | | | | |
| Financial access services | 7,405 | 1 % | 4,863 | 1 % | 2,542 | 52 % |
| Software and other | 2,984 | 1 % | 3,196 | 1 % | (212) | (7)% |
| Hardware | 27,074 | 5 % | 17,078 | 4 % | 9,996 | 59 % |
| FinTech total cost of revenues | 37,463 | 7 % | 25,137 | 5 % | 12,326 | 49 % |
| Operating expenses | 161,230 | 28 % | 133,320 | 28 % | 27,910 | 21 % |
| Research and development | 43,386 | 8 % | 26,799 | 6 % | 16,587 | 62 % |
| Depreciation | 48,342 | 8 % | 46,571 | 10 % | 1,771 | 4 % |
| Amortization | 43,582 | 8 % | 43,680 | 9 % | (98) | — % |
| Total costs and expenses | 415,398 | 73 % | 330,341 | 69 % | 85,057 | 26 % |
| Operating income | 161,758 | 27 % | 149,656 | 31 % | 12,102 | 8 % |
| Other expenses | | | | | | |
| Interest expense, net of interest income | 38,522 | 7 % | 50,488 | 11 % | (11,966) | (24)% |
| Loss on extinguishment of debt | — | — % | 34,389 | 7 % | (34,389) | (100)% |
| Total other expenses | 38,522 | 7 % | 84,877 | 18 % | (46,355) | (55)% |
| Income before income tax | 123,236 | 20 % | 64,779 | 13 % | 58,457 | 90 % |

(1) Exclusive of depreciation and amortization.

* Rounding may cause variances.

| | Nine Months Ended | | | | | |
|----------------------|--------------------|-------------|--------------------|-------------|------------------|-------------|
| | September 30, 2022 | | September 30, 2021 | | 2022 vs 2021 | |
| | \$ | % | \$ | % | \$ | % |
| Income tax provision | 29,784 | 5 % | 1,285 | — % | 28,499 | 2218 % |
| Net income | \$ 93,452 | 16 % | \$ 63,494 | 13 % | \$ 29,958 | 47 % |

* Rounding may cause variances.

We continued to experience a certain level of recovery from the global pandemic, and as a result, our revenues, costs and expenses were stronger in the current year period, as compared to the same period in the prior year.

Revenues

Total revenues increased by approximately \$97.2 million, or 20%, to approximately \$577.2 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to the higher Games and FinTech revenues described below.

Games revenues increased by approximately \$51.9 million, or 19%, to approximately \$323.2 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to: (i) an increase in the number of machines sold with a higher average selling price per unit, which resulted in additional gaming equipment revenues; (ii) an increase in the number of units in our installed base from our gaming operations revenues; (iii) the contributions from the recently acquired historical horse racing development company, Intuicode, reflected mostly in our gaming operations revenues, and also in our gaming equipment revenues; and (iv) an increase in our online digital solutions as a result of growth in the customer base, which were reflected in our gaming operations revenues.

FinTech revenues increased by approximately \$45.3 million, or 22%, to approximately \$254.0 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to contributions that included: (i) an increase in both transaction and dollar volumes attributable to new and renewed business from our financial access services revenues; (ii) contributions from the recently acquired Australian cash handling and financial payment solutions company, ecash, reflected mostly in our hardware revenues, and also in our software and financial access services revenues; and (iii) an increase in unit sales of our kiosks reflected in our hardware revenues.

Costs and Expenses

Total costs and expenses increased by approximately \$85.1 million, or 26%, to approximately \$415.4 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to higher Games and FinTech costs and expenses described below.

Games cost of revenues increased by approximately \$26.6 million, or 48%, to approximately \$81.4 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to the additional variable costs associated with the higher unit sales from our gaming equipment and systems activities and increased supply chain related costs. There were also additional costs associated with our installed base from our gaming operations activities.

FinTech cost of revenues increased by approximately \$12.3 million, or 49%, to approximately \$37.5 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to additional variable costs associated with the higher unit sales from our hardware revenue, increased supply chain related costs and additional check warranty expenses from a greater volume of check approvals within our financial access services activities.

Operating expenses increased by approximately \$27.9 million, or 21%, to approximately \$161.2 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to higher payroll and related expenses from employees acquired through acquisitions completed during the year in our Games and FinTech segments and organic employee increases to support the growth of our operations. We also incurred higher employee travel and related costs resulting from more normalized operations of our customers in our Games and FinTech segments. The prior year operating expenses were partially offset by the recovery of a settlement from a dispute with an insurance carrier for a payment associated with the Fair and Accurate Credit Transactions Act legal matter of approximately \$1.9 million in our FinTech segment.

Research and development expenses increased by approximately \$16.6 million, or 62%, to approximately \$43.4 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This increase was primarily the result of the growth in our operations and the continued investment in new products in our Games and FinTech segments.

Primarily as a result of the factors described above, our operating income increased by approximately \$12.1 million, or 8%, as compared to the same period in the prior year. The operating income margin was 27% for the nine months ended September 30, 2022 compared to 31% for the same period in the prior year.

Interest expense, net of interest income, decreased by approximately \$12.0 million, or 24%, to approximately \$38.5 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily due to interest savings achieved from a refinancing of our prior credit facilities and unsecured notes in the third quarter of 2021 that resulted in a lower amount of principal outstanding and interest earned on our cash balances.

The income tax provision was \$29.8 million for the nine months ended September 30, 2022, an increase of approximately \$28.5 million, as compared to \$1.3 million for the same period in the prior year. The income tax provision reflected an effective income tax rate of 24.2% for the nine months ended September 30, 2022, which was greater than the statutory federal rate of 21.0%, primarily due to state taxes, compensation deduction limitations, a net operating loss limitation and an accrual for a foreign withholding tax, partially offset by both a research credit and the benefit from stock option exercises. The income tax provision reflected an effective income tax rate of 2.0% for the same period in the prior year, which was less than the statutory federal rate of 21.0%, primarily due to a decrease in our valuation allowance due to book income during the period, and the benefit from stock option exercises.

Primarily as a result of the factors described above, we had net income of approximately \$93.5 million for the nine months ended September 30, 2022, as compared to net income of approximately \$63.5 million for the same period in the prior year.

Critical Accounting Estimates

The preparation of our financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in our Financial Statements. The SEC has defined critical accounting estimates as those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant.

There were no material changes to our critical accounting estimates as compared to those disclosed in our Annual Report.

Recent Accounting Guidance

For a description of our recently adopted accounting guidance and recent accounting guidance not yet adopted, see [“Note 2 — Basis of Presentation and Summary of Significant Accounting Policies — Recent Accounting Guidance”](#) included in *Part I, Item 1: Financial Statements* of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

Overview

The following table presents an unaudited reconciliation of cash and cash equivalents per GAAP to net cash position and net cash available (in thousands):

| | <u>At September 30,</u> | <u>At December 31</u> |
|---|-------------------------|-----------------------|
| | <u>2022</u> | <u>2021</u> |
| Balance sheet data | | |
| Total assets | \$ 1,669,523 | \$ 1,635,650 |
| Total borrowings | \$ 978,877 | \$ 981,525 |
| Total stockholders' equity | \$ 218,719 | \$ 174,500 |
| Cash available | | |
| Cash and cash equivalents | \$ 258,627 | \$ 302,009 |
| Settlement receivables | 76,854 | 89,275 |
| Settlement liabilities | (232,147) | (291,861) |
| Net cash position⁽¹⁾ | <u>103,334</u> | <u>99,423</u> |
| Undrawn revolving credit facility | 125,000 | 125,000 |
| Net cash available⁽¹⁾ | <u>\$ 228,334</u> | <u>\$ 224,423</u> |

- (1) Non-GAAP measure. In order to enhance investor understanding of our cash balance, we are providing in this Quarterly Report on Form 10-Q Net Cash Position and Net Cash Available, which are not measures of our financial performance or position under GAAP. Accordingly, these measures should not be considered in isolation or as a substitute for GAAP measures, and should be read in conjunction with our balance sheets prepared in accordance with GAAP. We define our (i) Net Cash Position as cash and cash equivalents plus settlement receivables less settlement liabilities; and (ii) Net Cash Available as Net Cash Position plus undrawn amounts available under our Revolving Credit Facility. Our Net Cash Position and Net Cash Available change substantially based upon the timing of our receipt of funds for settlement receivables and payments we make to customers for our settlement liabilities. We present these non-GAAP measures as we monitor these amounts in connection with forecasting of cash flows and future cash requirements, both on a short-term and long-term basis.

Cash Resources

As of September 30, 2022, our cash balance, cash flows, and line of credit are expected to be sufficient to meet our recurring operating commitments and to fund our planned capital expenditures on both a short- and long-term basis. Cash and cash equivalents at September 30, 2022 included cash in non-U.S. jurisdictions of approximately \$28.6 million. Generally, these funds are available for operating and investment purposes within the jurisdiction in which they reside, and we may from time to time consider repatriating these foreign funds to the United States, subject to potential withholding tax obligations, based on operating requirements.

We expect that cash provided by operating activities will also be sufficient for our operating and debt servicing needs during the foreseeable future on both a short- and long-term basis. In addition, we have sufficient borrowings available under our senior secured revolving credit facility to meet further funding requirements. We monitor the financial strength of our lenders on an ongoing basis using publicly available information. Based upon available information, we believe our lenders should be able to honor their commitments under the Credit Agreement (defined in [“Note 12 — Long-term Debt”](#)).

Sources and Uses of Cash

The following table presents a summary of our cash flow activity (in thousands):

| | Nine Months Ended September 30, | | \$ Change 2022 vs 2021 |
|---|---------------------------------|-------------------|---------------------------|
| | 2022 | 2021 | |
| Cash flow activities | | | |
| Net cash provided by operating activities | \$ 146,914 | \$ 243,500 | \$ (96,586) |
| Net cash used in investing activities | (125,907) | (88,073) | (37,834) |
| Net cash used in financing activities | (64,080) | (190,653) | 126,573 |
| Effect of exchange rates on cash and cash equivalents | (1,106) | (237) | (869) |
| Cash, cash equivalents and restricted cash | | | |
| Net decrease for the period | (44,179) | (35,463) | (8,716) |
| Balance, beginning of the period | 303,726 | 252,349 | 51,377 |
| Balance, end of the period | \$ 259,547 | \$ 216,886 | \$ 42,661 |

Cash flows provided by operating activities decreased by approximately \$96.6 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily attributable to changes in operating assets and liabilities mostly associated with settlement activities from our FinTech segment and payments related to inventory and prepaid expenses and other assets from our Games and FinTech segments, partially offset by changes in our deferred income taxes as we decreased the valuation allowance on our deferred tax assets impacting our Games and FinTech segments and an increase in net income earned in our Games and FinTech segments. The prior year period was also impacted by a loss on extinguishment recorded in connection with our debt refinancing activities from our FinTech segment.

Cash flows used in investing activities increased by approximately \$37.8 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily attributable to our acquisition activities in both periods and an increase in capital expenditures in our Games and FinTech segments.

Cash flows used in financing activities decreased by approximately \$126.6 million for the nine months ended September 30, 2022, as compared to the same period in the prior year. This was primarily attributable to the debt refinancing activities in the prior year period, partially offset by the repurchase of shares in the open market and reduced option exercise activities in the current year period.

Long-Term Debt

Our New Revolver remained fully undrawn as of September 30, 2022.

For additional information regarding our credit agreement and other debt as well as interest rate risk refer to *Part I, Item 3: Quantitative and Qualitative Disclosures About Market Risk*, [“Note 12 — Long-Term Debt”](#) in *Part I, Item 1: Financial Statements*.

Contractual Obligations

There were no material changes to our commitments under contractual obligations as compared to those disclosed in our Annual Report, other than an increase to certain purchase obligations of approximately \$48.2 million from those disclosed in our Annual Report and obligations discussed in [“Note 3 — Leases.”](#), [“Note 4 — Business Combinations,”](#) and [“Note 12 — Long-Term Debt”](#) in *Part I, Item 1: Financial Statements*. We expect that cash provided by operating activities will be sufficient to meet such obligations during the foreseeable future.

We are involved in various legal proceedings in the ordinary course of our business. While we believe resolution of the claims brought against us, both individually and in aggregate, will not have a material adverse impact on our financial condition or results of operations, litigation of this nature is inherently unpredictable. Our views on these legal proceedings, including those described in [“Note 13 — Commitments and Contingencies”](#) in *Part I, Item 1: Financial Statements*, may change in the future. We intend to vigorously defend against these actions, and ultimately believe we should prevail.

Off-Balance Sheet Arrangements

In the normal course of business, we have commercial arrangements with third-party vendors to provide cash for certain of our ATMs. For the use of these funds, we pay a cash usage fee on either the average daily balance of funds utilized multiplied by a contractually defined cash usage rate or the amounts supplied multiplied by a contractually defined cash usage rate. These cash usage fees, reflected as interest expense within the Consolidated Statements of Operations and Comprehensive Income, were approximately \$2.7 million and \$5.5 million for the three and nine months ended September 30, 2022, respectively, and \$1.2 million and \$2.9 million for the three and nine months ended September 30, 2021, respectively. The cash usage fees increased in the current reporting period as compared to the same period in the prior year as a result of elevated funds dispensing volumes at our customer locations as the operational impacts from the pandemic began to lessen and higher interest rates. We are exposed to interest rate risk to the extent that the applicable federal funds rate increases.

Under these agreements, the currency supplied by third-party vendors remain their sole property until the funds are dispensed. As these funds are not our assets, supplied cash is not reflected on our Balance Sheets. The outstanding balances of funds provided by the third-party vendors were approximately \$322.0 million and \$401.8 million as of September 30, 2022 and December 31, 2021, respectively.

Our primary commercial arrangement, the Contract Cash Solutions Agreement, as amended, with Wells Fargo Bank, N.A. provides us with cash in the maximum amount of \$300 million with the ability to increase the amount as defined within the agreement or otherwise permitted by the vault cash provider. The agreement currently expires on June 30, 2024 and will automatically renew for additional one-year periods unless either party provides a ninety-day written notice of its intent not to renew.

We are responsible for any losses of cash in the fund dispensing devices under this agreement and we self-insure for this risk. We incurred no material losses related to this self-insurance for the three and nine months ended September 30, 2022 and 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our reported market risks or risk management policies since the filing of our Annual Report.

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

In the normal course of business, we have commercial arrangements with third-party vendors to provide cash for certain of our fund dispensing devices. Under the terms of these agreements, we pay a monthly fund usage fee that is generally based upon the target federal funds rate. We are, therefore, exposed to interest rate risk to the extent that the target federal funds rate increases. The outstanding balance of funds provided by the third-party vendors was approximately \$322.0 million as of September 30, 2022; therefore, each 100 basis points increase in the target federal funds rate would have approximately a \$3.2 million impact on income before tax over a 12-month period.

The New Credit Facilities bear interest at rates that can vary over time. We have the option of paying interest on the outstanding amounts under the New Credit Facilities using a base rate or LIBOR. We have historically elected to pay interest based on LIBOR, and we expect to continue to do so for various maturities.

The weighted average interest rate on the New Term Loan, which includes a 50 basis point floor, was 4.76% and 3.66% for the three and nine months ended September 30, 2022. Based upon the outstanding balance of the New Term Loan of \$594.0 million as of September 30, 2022, each 100 basis points increase in the applicable LIBOR would have a combined impact of approximately \$5.9 million on interest expense over a 12-month period.

The interest rate is fixed at 5.00% for the Unsecured Notes due 2029; therefore, an increase in LIBOR does not impact the related interest expense.

At present, we do not hedge the risk related to the changes in the interest rate; however, we continue to evaluate such interest rate exposure.

We continue to evaluate the potential impact of the eventual replacement of the LIBOR benchmark. We expect to utilize the replacement rate commonly referred to as the secured overnight financing rate ("SOFR"), which is the anticipated benchmark in place of LIBOR, and we do not expect the transition to SOFR to have a material impact on our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the principal executive officer and the principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2022 such that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting during the Quarter Ended September 30, 2022

Except as noted below, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On March 1, 2022, the Company acquired the stock of ecash Holdings Pty Limited and wholly-owned subsidiaries Global Payment Technologies Australia Pty Limited, and ACN 121 187 068 Pty Limited (collectively “ecash”). On April 30, 2022, the Company acquired the stock of Intuicode Gaming Corporation (“Intuicode”). Refer to Item 1, “Note 4 — Business Combinations” for a discussion of the acquisitions and related financial data. We are in the process of integrating ecash and Intuicode into our internal control over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be changed.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

A discussion of our legal proceedings is contained in [“Note 13 — Commitments and Contingencies”](#) in *Part I, Item 1: Financial Statements*.

Item 1A. Risk Factors.

We refer you to documents filed by us with the SEC; specifically, “Item 1A. Risk Factors” in our Annual Report, which identify material factors that make an investment in us speculative or risky and could materially affect our business, financial condition and future results. We also refer you to the factors and cautionary language set forth in the section entitled “Cautionary Information Regarding Forward-Looking Statements” in [“Item 2. Management’s Discussion and Analysis of Financial Conditions and Results of Operations”](#) of this Quarterly Report on Form 10-Q. This Quarterly Report, including the accompanying Financial Statements, should be read in conjunction with such risks and other factors for a full understanding of our operations and financial condition. The risks described in our Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. The risk factors included in our Annual Report have not materially changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases and Withholding of Equity Securities

| | Total Number of Shares Purchased or Withheld (in thousands) | Average Price Purchased or Withheld per Share ⁽³⁾ | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽⁴⁾ (in thousands) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽⁴⁾ (in thousands) |
|--------------------------|--|---|---|--|
| Share Repurchases | | | | |
| 7/1/22 - 7/31/22 | 926.1 ⁽¹⁾ | \$ 17.29 | 926.1 | \$ 100,648.6 |
| 8/1/22 - 8/31/22 | — ⁽¹⁾ | — | — | 100,648.6 |
| 9/1/22 - 9/30/22 | — ⁽¹⁾ | — | — | 100,648.6 |
| Sub-total | 926.1 | \$ 17.29 | 926.1 | \$ 100,648.6 |
| Tax Withholdings | | | | |
| 7/1/22 - 7/31/22 | 3.9 ⁽²⁾ | \$ 18.28 | — | \$ — |
| 8/1/22 - 8/31/22 | 6.2 ⁽²⁾ | \$ 19.64 | — | — |
| 9/1/22 - 9/30/22 | 2.5 ⁽²⁾ | \$ 15.82 | — | — |
| Sub-total | 12.6 | \$ 18.45 | — | \$ — |
| Total | 938.7 | \$ 17.31 | 926.1 | \$ 100,648.6 |

(1) Represents the number of shares repurchased during the three months ended September 30, 2022 pursuant to the share repurchase program that our Board of Directors has authorized and approved giving us the authority to repurchase up to \$150.0 million of our outstanding common stock over an 18-month period, which commenced in the second quarter of 2022, in accordance with Company and regulatory policies and trading plans established in accordance with Rules 10b5-1 and 10b-18 of the Securities Exchange Act of 1934. This share repurchase program supersedes all prior share repurchase programs. Refer to [“Note 14 — Stockholders’ Equity”](#) in *Part I, Item 1: Financial Statements* for additional details.

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

(3) Represents the average price per share of common stock purchased or withheld.

(4) There were 0.9 million shares repurchased during the three months ended September 30, 2022 at an average price of \$17.29 per share for an aggregate amount of \$16.0 million. There were no share repurchases during the three and nine months ended September 30, 2021.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

| Exhibit Number | Description |
|-----------------------|--|
| *31.1 | Certification of Randy L. Taylor, Chief Executive Officer of Everi Holdings in accordance with Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of Mark F. Labay, Chief Financial Officer of Everi Holdings in accordance with Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| **32.1 | Certification of the Chief Executive Officer and Chief Financial Officer of Everi Holdings in accordance with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document - -- this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| *101.SCH | XBRL Taxonomy Extension Schema Document. |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| Exhibit Number | Description |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| *104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL (included as Exhibit 101). |

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

November 8, 2022

(Date)

EVERI HOLDINGS INC.

(Registrant)

By: /s/ Todd A. Valli

Todd A. Valli

Senior Vice President, Corporate Finance and Tax & Chief
Accounting Officer

(For the Registrant and as Principal Accounting Officer)

Certification of Principal Executive Officer
Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Randy L. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Everi Holdings 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(s) 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(s) 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.

Dated: November 8, 2022

By: /s/ Randy L. Taylor

Randy L. Taylor

President and Chief Executive Officer

**Certification of Principal Financial Officer
Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark F. Labay, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Everi Holdings 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(s) 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(s) 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.

Dated: November 8, 2022

By: /s/ Mark F. Labay

Mark F. Labay
Chief Financial Officer

EVERI HOLDINGS INC.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Everi Holdings Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022 filed with the Securities and Exchange Commission (the “Report”), Randy L. Taylor, Chief Executive Officer of the Company, and Mark F. Labay, Chief Financial Officer of the Company, each hereby certifies as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, 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 at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Dated: November 8, 2022

By: /s/ Randy L. Taylor
Randy L. Taylor
President and Chief Executive Officer

Dated: November 8, 2022

By: /s/ Mark F. Labay
Mark F. Labay
Chief Financial Officer