



***TAX EVASION  
RISK ASSESSMENT***

***2019***

## REVISION HISTORY

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## **Introduction**

The purpose of this risk assessment is to identify the potential risk of failure to prevent the facilitation of tax evasion. The risks, internal controls, due diligence, top level commitment, communication and monitoring in place to mitigate these risks and the overall risk levels will be identified in this assessment.

## **Business Overview**

Everi develops, sells, and leases games and electronic gaming machines, gaming systems and services, and is an innovator and provider of core financial products and services, self-service player loyalty tools and applications, and intelligence and regulatory compliance solutions. Everi Games provides gaming operators with gaming technology products and services, including: (a) gaming machines (“EGMs”, “machines”, “units”), primarily comprising Class II and Class III slot machines, including *TournEvent*® terminals, placed under participation or fixed-fee lease arrangements or sold to casino customers; (b) *TournEvent*® system software, licenses, and ancillary equipment; (c) providing and maintaining [the] central determinant system[s] for the video lottery terminals (“VLTs”) installed in the State of New York and similar technology in certain tribal jurisdictions; (d) business-to-consumer (“B2C”) and business-to-business (“B2B”) interactive gaming activities; and (e) managing our *TournEvent of Champions*® national slot tournament.. Everi FinTech provides gaming operators with cash access and related technology products and services, including: (a) services and equipment that facilitate casino patron’s self-service access to cash at gaming facilities via Automated Teller Machine (“ATM”) cash withdrawals, credit card cash access transactions and point-of-sale (“POS”) debit card purchase and cash access transactions; (b) check warranty services; (c) equipment that provides cash access and other cash handling efficiency-related services; (d) self-service player loyalty enrollment and marketing equipment; (e) software and services that improve credit decision making, automate cashier operations, and enhance patron marketing activities for gaming establishments; (f) compliance, audit, and data solutions; and (g) online payment transaction and processing solutions for gaming operators in states that offer intrastate, Internet-based gaming activities.

### ***Games Products and Services***

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, VLTs, B2C and B2B interactive gaming activities, accounting and central determinant systems, and other back office systems. We conduct our Games business based on results generated from the following major segments: (a) **Gaming Operations**; (b) **Gaming Equipment and Systems**; and (c) **Gaming Other**.

With respect to our **Gaming Operations** segment, we primarily provide: (a) leased gaming equipment, both Class II and Class III offerings, on a participation or a daily fixed-fee basis, including standard games and hardware and premium games and hardware, inclusive of local-area progressive, wide-area progressive (“WAP”), and *TournEvent*® machines; (b) accounting and central determinant systems; and (c) interactive gaming activities. In connection with our leased gaming equipment, we retain ownership of the machines installed at customer facilities. We receive recurring revenue based on a percentage of the net win per day generated by the leased gaming equipment or a daily fixed-fee.

The **Gaming Equipment and Systems** segment is comprised of the sale of some combination of: (a) gaming equipment and player terminals, including *TournEvent*® machines; (b) game content; (c) license fees; and (d) ancillary equipment, such as lighting packages.

The **Gaming Other** segment is comprised of business from casino customers that participate in our *TournEvent of Champions*® national slot tournament.

***Our Games products include:***

*Classic Mechanical Reel Games.* Our full range of classic mechanical reel games provides players with a traditional, high denomination slot gaming experience. These games leverage our long-standing experience in building enduring brands, such as *Black Diamond*® and *Wild Wild Gems*®, and feature a unique perspective on traditional slot games with eye-catching features, such as *Cash Machine*™, a three-reel, one-line mechanical slot game that offers “win what you see” gameplay. Our premium mechanical linked products include both original and licensed game themes such as *Zoltar 5X Pay*™ and *Zoltar Triple Jackpot*™. Our premium linked products include merchandising options for casino operators that can include overhead signs, backlit plexiglass, pod-fillers, wedge kits, and more. Our mechanical reel games are consistently ranked among the best-performing units in industry reports.

*Video Reel Games.* We offer a growing range of dual-screen and portrait single-screen video reel games that provide entertaining slot gaming experience. Below is a list of our video gaming cabinets and select games on these platforms.

*Empire 5527.* The *Empire 5527* cabinet features a portrait-oriented 55-inch upper display and a landscape-oriented 27-inch lower display, game-controlled lighting on the base-game display, and a high-quality sound system. The cabinet is also designed to occupy less space on the casino floor, allowing for more flexible configurations. The *Empire 5527* includes the high-performing licensed game *Smokin’ Hot Stuff Wicked Wheel*®. We expanded the *Empire 5527* into a banked product called *Empire Arena*™ that offers flexibility in banking configurations for casino operators, with three units and up to a total of eight units. The

product is currently supported by two successful game themes – *Discovery Channel's Shark Week*<sup>®</sup>, which launched in October 2018, and *The Vault*<sup>™</sup>, which launched in October 2019. These titles offer base games as well as competitive community-style bank-wide bonus features.

*Empire Flex*. The *Empire Flex* cabinet, released in December 2019, is the latest video cabinet that is part of the Empire Cabinet Series. The cabinet features a 49-inch flexed monitor capable of supporting 4K content, an enlarged glass button deck, and curved LED light bars that are available in standard or extended options. The cabinet launched with two games that are part of the *Beast*<sup>™</sup> Series.

*Empire DCX*. The *Empire DCX* is a premium video cabinet that features dual curved 43-inch displays that support 4K content with integrated edge lighting, premium 4.1 surround sound, and enhanced game-controlled lighting. The cabinet is available exclusively with licensed brand game themes having launched with *The Mask*<sup>®</sup> slot game, which is based on New Line Cinema's 1994 hit comedy.

*Empire MPX*. The *Empire MPX* cabinet debuted in April 2017 as a leased product with the launch of the Company's first premium participation games and then launched as a for-sale product in December 2017. The cabinet features a single-screen 43-inch monitor, full 1080p high definition ("HD") graphics capabilities, and a fully-customizable touchscreen button panel. As the Company's primary for-sale portrait cabinet, the platform is supported by key games including *MoneyBall*<sup>®</sup> and *MoneyBall Inferno*<sup>™</sup> as well as *Yardbirds 3 Fox in the Henhouse*<sup>™</sup> and *Yardbirds 3 Return of the Chicken*<sup>™</sup>. The Company also recently launched its first persistent state games on the *Empire MPX* cabinet such as *Fu Stacks Crimson*<sup>™</sup> and *Fu Stacks Jade*<sup>™</sup>, as well as *Gift of the Nile*<sup>™</sup> and *Dragon Flame*<sup>™</sup>. Persistent state gaming encourages players to pursue credits, multipliers, progressives, and other rewards within a finite period of time.

*Core HDX*. The *Core HDX* cabinet features dual widescreen 23-inch monitors with 1080p HD capability, integrated touchscreens, and premium three-way sound system. To deepen our library of games on the *Core HDX* cabinet, we have transitioned several of our best performing high-denomination three-reel mechanical games to this cabinet. We are also supporting lower-denomination video games, with titles such as *High Voltage Jackpot Jolt*<sup>™</sup> and *Jackpot Respin Ice on Fire*<sup>®</sup>.

*The Texan HDX*<sup>®</sup>. The *The Texan HDX*<sup>®</sup> is an 8-foot tall cabinet with dual 42-inch HD video screens that features a two-person bench seat, integrated touch screens, and a premium three-way sound system. The cabinet is designed to showcase the Everi standard video library in an oversized format. *Cash Machine*<sup>™</sup> and *Dragon Zap*<sup>™</sup> were recently made available for play on *The Texan HDX*<sup>®</sup> cabinet.

*TournEvent*®. Our slot tournament terminals and system allow gaming operators to switch from in-revenue gaming to out-of-revenue tournaments and to design and build a variety of flexible tournament formats, such as individual or team tournament play, session or round winner advancement, and cumulative or maximum scoring, including providing bonus opportunities in tournament games that improve scores or automatically move a player to first place. We introduced *TournEvent*® 6.0 in late 2019 with several new system enhancements including the *TournEvent Now*™ feature that enables operators to offer on-the-fly tournaments via their player tracking system. Casino operators can move large numbers of players through the first round of tournaments on the player's time, at the player's pace, and then host a traditional final round for top scoring players.

### ***FinTech Products and Services***

Our FinTech products and services include solutions that we offer to gaming establishments to provide their patrons with cash access-related services, self-service player loyalty and marketing tools, and other information-related products and services as well as an end-to-end security suite to protect across the logical attack landscape and maintain the necessary secured environments to protect consumer data per PII/PCI compliance requirements. These solutions include: access to cash at gaming facilities via ATM cash withdrawals, credit card cash access transactions, and POS debit card purchase and cash access transactions; check warranty services; self-service ATM's and fully integrated kiosks and maintenance services; self-service loyalty enrollment and marketing kiosks and maintenance services; 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: (a) Cash Access Services; (b) Equipment; and (c) Information Services and Other.

The markets we address with our principal FinTech products and services are:

### ***Cash Access Services***

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

*ATM Cash Withdrawals.* ATM cash withdrawal transactions represent the largest category of electronic payment transactions that we process, as measured by dollars processed and transaction volume. In an ATM cash withdrawal transaction, a patron directly accesses funds from either a standalone ATM or a device enabled with our ATM service by using either an ATM card or a debit card to withdraw funds from the patron's demand deposit account, or using a credit card to access the patron's line of credit. In either event, the patron must use the personal identification number ("PIN") associated with such card. Our

processor then routes the transaction request through an electronic funds transfer (“EFT”) network to the patron’s bank or card issuer, as applicable.

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

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

When a patron requests either a credit card or POS debit card cash access transaction, our processor routes the transaction request through one of the card associations, or EFT networks, to the card issuer. Depending upon several factors, such as the available credit or bank account balance, the transaction is either authorized or declined by the card issuer. If authorized, the patron’s bank account is debited or the patron’s credit card balance is increased, in both cases, by an amount equal to the funds requested plus our service fee. Our service fee is a fixed dollar amount, a percentage of the transaction size, or a combination of a fixed dollar amount and percentage of the transaction size. If the transaction is authorized, the device informs the patron that the transaction has been approved. The device then further instructs the patron to proceed to the gaming establishment’s cashier cage (“financial services center”), to complete the transaction, because both credit card and POS debit card cash access transactions must, in most circumstances, be completed in a face-to-face environment and a unique signature received in order to comply with rules of the card associations. We receive the transaction amount and the service fee from the card issuer, and we reimburse the gaming establishment for the cash amount that it provided to the patron, and in addition, will pay the gaming establishment a portion of the service fee we collected as a commission for the right to

operate on its premises. We are also obligated to pay interchange fees to the card issuer and processing costs related to the electronic payment transaction to card associations.

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

For those gaming establishments that prefer to obtain a warranty, we provide check warranty services through a third-party provider. We pay this third-party provider to assist with the warranty decision, check processing, billing, and collection activities. The gaming establishment sends a request to the check warranty service provider, inquiring whether it would be willing to accept the risk of cashing the check. If the check warranty provider accepts the risk and warrants the check, the gaming establishment accepts the patron's check and provides cash for the face amount of the check. If the check is dishonored by the patron's bank upon presentment, the gaming establishment invokes the warranty, and the check warranty service provider purchases the check from the gaming establishment for the full check amount and then pursues collection activities on its own.

On our behalf, the third-party provider charges our customers a fee for the check warranty services, which is typically a percentage of the face amount of the check being warranted. In such circumstances, we receive all of the check warranty revenue. We are exposed to risk for the losses associated with warranted checks that cannot be collected from patrons issuing the items. Warranty expenses are defined as any amounts paid by the third-party provider to gaming establishments to purchase dishonored checks that will not be collectible from patrons and any expenses related to the collection on these amounts. We also pay certain fees and operating expenses to our third-party provider in connection with the provision of such services.

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

### ***Equipment***

*Fully Integrated Kiosks* are a complete line of products that provide multiple functions to gaming operators on their casino floors. This includes cash access functionality that enables ATM cash withdrawals, POS debit card and credit card cash access transactions directly or by using our patented "Seamless Transition" technology, which is the EMV corollary of our 3-in-1 Rollover functionality. The kiosks also provide functionality to perform check cashing transactions, slot machine ticket redemption, bill breaking, slot ticket purchase from a debit card, and loyalty program access, as well as integration with mobile and wallet

technology. The availability of our cash access platform on these slot ticket redemption devices provides us with additional points of contact with gaming patrons at locations that are typically closer to gaming devices than traditional cash access devices that are generally located on the periphery of the gaming area and also provides gaming patrons with more opportunities to access their cash with less cashier involvement.

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

- *JackpotXchange* family of kiosks, *JXC 4.0*, and *JXC-L*, enable casino personnel to efficiently access funds to pay jackpots for their guests. These kiosks are integrated with all major slot systems to offer jackpot processing and payout in a combination of cash or slot tickets. These kiosks offer gaming operators the ability to reduce workload at the cage and for slot personnel.
- *CageXchange* is a cash dispensing device that helps streamline casino cage operations. With *CageXchange*, cash is securely vaulted, creating increased security while also reducing cash shrinkage and helping to improve cashier accuracy. Additional efficiencies are achieved from accelerating the process of cage cashiers obtaining money from the vault. *CageXchange* is integrated with *CashClub*® to create an efficient transaction for casino guests.
- Our *Cash Recycling Solutions* allow casinos to fully automate the check in and check out process of money, saving time and expense. As gaming establishments vary in size and complexity, these *Cash Recycling Solutions* support a number of diverse resort operations such as retail, food and beverage, entertainment, and gaming operations.

*Player Loyalty Kiosk and Related Equipment* provide gaming operators with self-service player loyalty enrollment, player card issuance, and marketing equipment that manages and delivers a gaming operator's marketing programs through the patron interfaces. This player loyalty-related equipment allows the customer to utilize the loyalty platform as the central hub for all of the marketing offerings.

- *Enrollment Kiosk* is a self-service kiosk that allows casino patrons to either sign up for a player loyalty card or print replacement cards. These kiosks provide an enhanced level of customer service when the club desk is busy or closed by creating more service locations throughout the casino floor without costly infrastructure or additional overhead costs. Such kiosks also assist with updating contact information of card holders and to verify email or phone contact with a two-step verification process.

- *Promotional Kiosk* is a kiosk that engages casino patrons with the casino’s loyalty programs, unifying guest service functions into a simple self-service solution. With a range of promotions and offers, the kiosk enables the customer to better manage their marketing efforts. A flexible interface and control panel functionality enable the kiosk to be responsive to customers’ changing business conditions or plans. With the drawings feature, multiple point to entry conversion ratios can be controlled by the hour, as well as scheduled prize earnings. Customized content is shared throughout the solution with property amenities that include menus, photos, and video content. With a graphic-rich, statistically optimized, and exciting promotions catalog library of more than 300 games, critical assets for Instant Win, Episodic Board games, and Earn and Wins, customers can easily access differentiated content. Everi further expanded this library with acquired content assets from Micro Gaming Technology Inc. (“MGT”) in December of 2019.

### ***Information Services and Other***

*Maintenance* provides for various levels of support and maintenance services for our fully integrated kiosks, player loyalty kiosks, and related equipment. Our support operations, field service, and customer engagement teams provide quarterly and annual maintenance on these products and software systems to help maximize the efficiency of our products.

*JackpotXpress* is a full-featured jackpot payout and tax form management platform that allows casino personnel to work through the complex jackpot process using a mobile tablet or kiosk. *JackpotXpress* allows gaming operators to reduce jackpot wait times, eliminate manually filling out cumbersome paper documents, and perform “know your customer” checks. It is fully integrated with our *Everi Compliance*, *CageXchange*, and *JackpotXchange* products.

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

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

## **Taxation Review**

***Income Taxes.*** We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. In accordance with accounting guidance, our income taxes include amounts from domestic and international jurisdictions, plus the provision for foreign withholding and U.S. state taxes on undistributed earnings of international subsidiaries not deemed to be permanently invested. Since it is our practice and current intent to reinvest the earnings in the international operations of our foreign subsidiaries, foreign withholding and U.S. state income taxes have not been provided on the undistributed earnings of any foreign subsidiaries. Some items of income and expense are not reported in tax returns and the Consolidated Financial Statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes.

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

When measuring deferred tax assets, certain estimates and assumptions are required to assess whether a valuation allowance should be established by evaluating both positive and negative factors in accordance with accounting guidance. This evaluation requires that we exercise judgment in determining the relative significance of each factor. The assessment of valuation allowance involves significant estimates regarding future taxable income and when it is recognized, the amount and timing of taxable differences, the reversal of temporary differences and the implementation of tax-planning strategies. A valuation allowance is established based on the weight of available evidence, including both positive and negative indicators, if it is more likely than not that a portion, or all, of the deferred tax assets will not be realized. Greater weight is given to evidence that is objectively verifiable, most notably historical results. If we report a cumulative loss from continuing operations before income taxes for a reasonable period of time, this form of negative evidence is difficult to overcome. Therefore, we include certain aspects of our historical results in our forecasts of future taxable income, as we do not have the ability to solely rely on forecasted improvements in earnings to recover deferred tax assets. If we no longer

report a cumulative loss position, to the extent our results of operations improve, such that we have the ability to overcome the more likely than not accounting standard, we expect to be able to reverse the valuation allowance in the applicable period of determination. In addition, we rely on deferred tax liabilities in our assessment of the realizability of deferred tax assets if the temporary timing difference is anticipated to reverse in the same period and jurisdiction and the deferred tax liabilities are of the same character as the temporary differences giving rise to the deferred tax assets.

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

Under this standard, we may recognize tax benefits from an uncertain position only if it is more likely than not that the position will be sustained upon examination by taxing authorities based on the technical merits of the issue. The amount recognized is the largest benefit that we believe has greater than a 50% likelihood of being realized upon settlement. Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operation, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed.

For further information on Everi's taxation, please refer to the most recent Form 10-K filing.

## **Risk Review**

### **Risk #1**

Taxable income could be under reported on the corporate income tax return.

#### **Controls to Mitigate Risk**

1. Book income is audited by a large independent certified public accounting firm.
2. The income tax returns are prepared by a large independent certified public accounting firm, not the auditor.

3. The income tax returns are reviewed and approved by the Corporate Director of Tax.
4. All income tax returns are signed by a corporate officer as designated by the company's Signature Authority Policy.
5. The provision for income tax expense is reviewed and approved by an outside tax provision consultant.
6. All tax payments also require authorization based on the rules set forth in the company's Signature Authority Policy. The greater the payment, the higher the authorization required up to the Board of Directors.
7. Everi personnel follow the process and procedure outlined in the 2019 Process Narrative – Income Tax Provision document that also includes measurements and controls, dependencies and risk and controls.
8. Everi is a publicly traded company that must follow specific accounting requirements including the use of a certified public accounting firm to audit and review Everi's accounting practices on a regular basis and certify the company's compliance.
9. Everi must follow very specific Sarbanes-Oxley Act requirements as a U.S. public company. This Act works to ensure that companies have a strong corporate and auditing accountability and responsibility as well as appropriate controls.
10. The Big Four accounting firm that reviews and assists with Everi's tax returns have internal training requirements and most are CPA's with continuing education requirements.
11. Everi's CFO participates in continuing education to maintain his CPA license, which includes tax courses each year.
12. Everi has quarterly meetings with our certified public accounting firm to discuss any changes in tax laws that could impact our provision and Everi has regular meetings with Ernst & Young to discuss tax law.
13. Everi's Tax Director participates in continuing professional education through the Tax Executives Institute, of which he is also a member, and receives periodic training provided by several of the large accounting firms.
14. Everi's Senior Vice President, Corporate Finance & Chief Accounting Officer participates in continuing professional education through various sources, including, but not limited to, Big Four accounting firms as well as the Financial Executives Institute and the SEC Professionals Organization, among other highly regarded institutions that include tax-related topics.

**Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter given the multitude of controls in place to mitigate the risk of underreporting.

**Risk #2**

Tariffs and duties could be understated on the importation of goods.

### **Controls to Mitigate Risk**

1. Third party products are imported based on an invoice that is paid to third parties based on amounts actually paid.
2. Internally developed products imported are supported by invoices to third parties based on amounts actually paid.

### **Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter given the controls and documentation in place to verify the proper tariffs and duties for the importation of goods.

### **Risk #3**

Indirect taxes (i.e. VAT) could be understated on the purchase of goods.

### **Controls to Mitigate Risk**

1. Third party products are purchased based on an invoice that is paid to an independent party.
2. Book income is audited by a large independent certified public accounting firm.
3. Everi is a publicly traded company that must follow specific accounting requirements including the use of a certified public accounting firm to audit and review Everi's accounting practices on a regular basis and certify the company's compliance.
4. Everi must follow very specific Sarbanes-Oxley Act requirements as a U.S. public company. This Act works to ensure that companies have a strong corporate and auditing accountability and responsibility as well as appropriate controls.

### **Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter given the controls identified above that ensure proper verification has been conducted on the purchase of goods.

### **Risk #4**

Payroll taxes could be understated on wages paid.

### **Controls to Mitigate Risk**

1. Payroll tax returns are prepared by a large independent payroll processing company, not the Company.
2. Book income is audited by a large independent certified public accounting firm.

3. Everi is a publicly traded company that must follow specific accounting requirements including the use of a certified public accounting firm to audit and review Everi's accounting practices on a regular basis and certify the company's compliance.
4. Everi must follow very specific Sarbanes-Oxley Act requirements as a U.S. public company. This Act works to ensure that companies have a strong corporate and auditing accountability and responsibility as well as appropriate controls.

**Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter given the controls noted above.

**Risk #5**

Countries where we do business may not have a government or laws, rules or regulations that ensure a low risk of corruption.

**Controls to Mitigate Risk**

1. Everi ensures that any foreign countries where we do business, are sanction free. Everi checks the following sanction lists as necessary to identify any potential issues with the country under consideration.
  - a. U.S. Department of State – State Sponsors of Terrorism
  - b. U.S. Department of Treasury – OFAC/SDN
  - c. Financial Action Task Force - FATF
  - d. Caribbean Financial Action Task Force - CFATF
  - e. High Intensity Financial Crime Area – HIFCA
  - f. High Intensity Drug Trafficking Area – HIDTA
  - g. 311 Special Measures
  - h. Gambling Compliance Country Report
2. Everi's executive management is made aware of any foreign countries where we propose to do business and will advise if these regions are of concern given their experience in the business sector.
3. We seek advice from our tax compliance consultants as needed to ensure we understand the potential tax implications and any material risks.

**Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter due to the controls noted above. In addition, Everi's business outside of the United States is limited and represents a very small portion of the overall revenue of the company.

## **Risk #6**

The gaming industry is perceived as being a higher risk sector than others.

### **Controls to Mitigate Risk**

1. The gaming industry is highly regulated. Owners and operators of casinos are thoroughly vetted by the regulators and they are subject to extremely intrusive due diligence to ensure they are suitable.
2. Everi ensures that any foreign countries where we do business, are sanction free. Everi checks the following sanction lists as necessary to identify any potential issues with the country under consideration.
  - a. U.S. Department of State – State Sponsors of Terrorism
  - b. U.S. Department of Treasury – OFAC/SDN
  - c. Financial Action Task Force - FATF
  - d. Caribbean Financial Action Task Force - CFATF
  - e. High Intensity Financial Crime Area – HIFCA
  - f. High Intensity Drug Trafficking Area – HIDTA
  - g. 311 Special Measures
  - h. Gambling Compliance Country Report
3. Everi’s executive management is made aware of any foreign countries where we propose to do business and will advise if these regions are of concern given their experience in the business sector.
4. We seek advice from our tax compliance consultants as needed to ensure we understand the potential tax implications and any material risks.

### **Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter as the gaming industry is one of the most highly regulated industries in the world. Everi reviews entrance into any new region to ensure that it has been properly considered prior to doing business. In addition, Everi has been doing business in the gaming industry for more than twenty years and the executive team is very experienced working within the industry.

## **Risk #7**

Large scale company projects with multiple third party entities or individuals could pose a risk to the business.

### **Controls to Mitigate Risk**

1. Everi’s executive management is intimately involved in any material, large scale company project.
2. Everi’s Corporate Compliance Committee is required to review material financings and material transactions that meet specific pre-determined thresholds per the

- Gaming Compliance and Reporting Plan.
3. Everi's Corporate Compliance Committee is required to review vendors, distributors and consultants that meet specific pre-determined dollar thresholds to ensure we are doing business with third parties that are not considered high risk or have a history of behavior that could negatively impact the company per the Gaming Compliance and Reporting Plan. Suitability is essential.
  4. Everi's Signature Authority Policy lays out specific guidelines that must be followed and address purchase and expenditure limits, disbursement limits, banking authorizations, new vendor approvals, vendor, third party contracts, agreements, leases and other written agreements with strict authorization requirements all the way up to the Board of Directors.
  5. The Big Four accounting firm that reviews and assists with Everi's tax returns have internal training requirements and most are CPA's with continuing education requirements.
  6. Everi's CFO participates in continuing education to maintain his CPA license, which includes tax courses each year.
  7. Everi has quarterly meetings with our certified public accounting firm to discuss any changes in tax laws that could impact our provision and Everi has regular meetings with Ernst & Young to discuss tax law.
  8. Everi's Tax Director participates in continuing professional education through the Tax Executives Institute, of which he is also a member, and receives periodic training provided by several of the large accounting firms.
  9. Everi's Senior Vice President, Corporate Finance & Chief Accounting Officer participates in continuing professional education through various sources, including, but not limited to, Big Four accounting firms as well as the Financial Executives Institute and the SEC Professionals Organization, among other highly regarded institutions that include tax-related topics.

**Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level **2** (Low Level Risk) has been assigned to this matter as there are significant controls in place to limit the company's exposure to high risk third party entities or individuals. Everi's executive team and Board are always involved in projects of any magnitude given the small size of the company.

**Risk #8**

Companies or individuals representing Everi for tax purposes could be complicit in assisting Everi with tax evasion.

**Controls to Mitigate Risk**

1. Everi is a publicly traded company that must follow specific accounting requirements including the use of a certified public accounting firm to audit and review Everi's accounting practices on a regular basis and certify the

- company's compliance.
2. Everi's Signature Authority Policy lays out specific guidelines that must be followed and addresses purchase and expenditure limits, disbursement limits, banking authorizations, new vendor approvals, vendor, third party contracts, agreements, leases and other written agreements with strict authorization requirements all the way up to the Board of Directors.
  3. Everi must follow very specific Sarbanes-Oxley Act requirements as a U.S. public company. This Act works to ensure that companies have a strong corporate and auditing accountability and responsibility.
  4. Book income is audited by a large independent certified public accounting firm.
  5. The income tax returns are prepared by a large independent certified public accounting firm, not the auditor.
  6. The income tax returns are reviewed and approved by the Corporate Director of Tax.
  7. All income tax returns are signed by a corporate officer as designated by the company's Signature Authority Policy.
  8. The provision for income tax expense is reviewed and approved by an outside tax provision consultant.
  9. All tax payments also require authorization based on the rules set forth in the company's Signature Authority Policy. The greater the payment, the higher the authorization required up to the Board of Directors.
  10. Financial Statement Reviews are conducted by our independent certified public accountant on a quarterly and annual basis.
  11. Everi personnel follow the process and procedure outlined in the 2019 Process Narrative – Income Tax Provision document that also includes measurements and controls, dependencies and risk and controls.
  12. The Big Four accounting firm that reviews and assists with Everi's tax returns have internal training requirements and most are CPA's with continuing education requirements.
  13. Everi's CFO participates in continuing education to maintain his CPA license, which includes tax courses each year.
  14. Everi has quarterly meetings with our certified public accounting firm to discuss any changes in tax laws that could impact our provision and Everi has regular meetings with Ernst & Young to discuss tax law.
  15. Everi's Tax Director participates in continuing professional education through the Tax Executives Institute, of which he is also a member, and receives periodic training provided by several of the large accounting firms.
  16. Everi's Senior Vice President, Corporate Finance & Chief Accounting Officer participates in continuing professional education through various sources, including, but not limited to, Big Four accounting firms as well as the Financial Executives Institute and the SEC Professionals Organization, among other highly regarded institutions that include tax-related topics.

**Risk Level Assignment and Evaluation** *(The risk level meter can be found on the last page of this document.)*

A risk level 2 (Low Level Risk) has been assigned to this matter as there are significant controls in place to limit the company’s exposure to tax evasion collusion given the controls in place as described above and the constant, scrutiny of the shareholders and the SEC.

**Risk Level Meter**

| <b>Risk Level Definitions</b> |  |
|-------------------------------|--|
| <b>Risk level 1</b>           | Indicates there is no risk associated with the product/service.            |
| <b>Risk level 2</b>           | Low risk with internal controls in place to mitigate the risk.             |
| <b>Risk level 3</b>           | Medium Risk with internal controls in place to mitigate the risk.          |
| <b>Risk level 4</b>           | Medium to High Level Risk with internal controls that require improvement. |
| <b>Risk level 5</b>           | High Risk Level with inadequate internal controls.                         |

**Risk Assessment Renewal**

This risk assessment will be updated on an annual basis. The risk levels will be re-evaluated each year based on changes to the company’s accounting controls and to identify any new or emerging risks that need to be considered. Revisions to the risk assessment can be made throughout the year as necessary. The risk assessment will be presented to the Board for approval once a year.