As filed with the Securities and Exchange Commission on September 16, 2022.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Snail, Inc.

(Exact Name of Registrant as Specified in Its Charter)

California	**7372**	**27-1157839**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

12049 Jefferson Boulevard
Culver City, CA 90230
Tel: +1 (310) 988-0643

(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Jim S. Tsai
12049 Jefferson Boulevard
Culver City, CA 90230
Tel: +1 (310) 988-0643

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Byron B. Rooney, Esq. **Alan F. Denenberg, Esq.** **John H. Runne, Esq.** **Davis Polk & Wardwell LLP** **450 Lexington Avenue** **New York, NY 10017** **Tel: +1 (212) 450-4000**	**Jason T. Simon, Esq.** **Yangyang Jia, Esq.** **Greenberg Traurig, LLP** **1750 Tysons Boulevard,** **Suite 1000** **McLean, VA 22102** **Tel: +1 (703) 749-1386**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
	Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

EXPLANATORY NOTE

Snail Games USA Inc. ("Snail Games USA") is a California Corporation. Concurrently with this offering, Snail, Inc. ("Snail"), an entity incorporated under the laws of Delaware, and Snail Games USA will consummate the Transactions as defined and as described in "Our Organizational Structure" in the prospectus included as part of this registration statement. As a result of the Transactions, (i) Snail will be a holding company, with its principal asset consisting of all of the shares of common stock of Snail Games USA and (ii) Snail will control the business and affairs of Snail Games USA and its subsidiaries. Except as otherwise disclosed in the prospectus included in this registration statement, the consolidated historical financial statements and summary financial and information included in this registration statement are those of Snail Games USA and its subsidiaries, and do not give effect to the Transactions.

Subject to completion, dated , 2022

PRELIMINARY PROSPECTUS

Snail, Inc.

Shares of Class A Common Stock

This is Snail, Inc.'s initial public offering. We are selling shares of our Class A common stock. We are also registering the issuance by us of up to shares of Class A common stock issuable upon the exercise of warrants to purchase Class A common stock (the "Underwriters' Warrants") at a price of $ per share of Class A common stock.

We expect the public offering price to be between $ and $ per share. Currently no public market exists for the shares. After pricing of the offering, we expect that the shares will trade on the Nasdaq Capital Market ("Nasdaq") under the symbol "SNAL."

Upon completion of this offering, we will have two classes of common stock: our Class A common stock and our Class B common stock. The rights of the holders of Class A common stock and Class B common stock will be identical, except with respect to voting, conversion and transfer restrictions applicable to the Class B common stock. Each share of Class A common stock will be entitled to one vote. Each share of Class B common stock will be entitled to ten votes and will be convertible into one share of Class A common stock automatically upon transfer, subject to certain exceptions. Holders of Class A common stock and Class B common stock will vote together as a single class on all matters unless otherwise required by law. Following this offering, our issued and outstanding Class B common stock will represent approximately % of the combined voting power of our outstanding common stock, assuming no exercise of the underwriters' option to purchase additional shares, and Mr. Hai Shi ("Mr. Shi"), our Founder and Chairman, will beneficially own % of the combined voting power of our outstanding common stock. Accordingly, we will be a "controlled company" as defined under the corporate governance rules of Nasdaq. See "Management — Controlled Company Exemption" and "Description of Capital Stock."

We are an "emerging growth company" under the U.S. federal securities laws as that term is used in the Jumpstart Our Business Startups Act of 2012 and, as a result, have elected to comply with certain reduced public company disclosure and reporting requirements.

Investing in our Class A common stock involves risks that are described in the "Risk Factors" section beginning on page 13 of this prospectus.

	Per share	Total
Public offering price	$	$
Underwriting discount[(1)]	$	$
Proceeds, before expenses, to us	$	$

(1) See "Underwriting" for a description of all compensation payable to the underwriters.

The underwriters may also exercise their option to purchase up to an additional shares of Class A common stock from us, less the underwriting discount, for days after the date of this prospectus.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of Class A common stock will be ready for delivery on or about , 2022.

Tiger Brokers **EF Hutton**

division of Benchmark Investments, LLC

The date of this prospectus is , 2022.

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Unless otherwise indicated or the context otherwise requires, all references in this prospectus to "Snail" or the "Company," "we," "our," "ours," "us" or similar terms refer, prior to the completion of the Transactions (as defined herein), to Snail Games USA Inc., together with its consolidated subsidiaries, and after the completion of the Transactions, including this offering, to Snail, Inc., together with its consolidated subsidiaries, the issuer of the shares of Class A common stock offered hereby, together with its direct and indirect subsidiaries.

Neither we nor the underwriters, nor any of their respective agents, have authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we may have referred you. Neither we nor the underwriters, nor any of their respective agents, take responsibility for, and can provide any assurance as to the reliability of, any other information that others may give you. Neither we nor the underwriters, nor any of their respective agents, have authorized any other person to provide you with different or additional information. Neither we nor the underwriters, nor any of their respective agents, are making an offer to sell the Class A common stock in any jurisdiction where the offer or sale is not permitted. This offering is being made in the United States and elsewhere solely on the basis of the information contained in this prospectus. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus,

regardless of the time of delivery of this prospectus or any sale of the Class A common stock. Our business, financial condition, results of operations and prospects may have changed since the date on the front cover of this prospectus.

For investors outside the United States: Neither we nor the underwriters, nor any of their respective agents, have done anything that would permit this offering or possession or distribution of this prospectus or any free writing prospectus we may provide to you in connection with this offering in any jurisdiction, other than the United States, where action for that purpose is required. Persons outside the United States who come into possession of this prospectus or any such free writing prospectus must inform themselves about, and observe any restrictions relating to, the offering of our Class A common stock and the distribution of this prospectus and any such free writing prospectus outside the United States and in their jurisdiction.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements

Except as otherwise disclosed, the financial information contained in this prospectus includes audited consolidated financial statements of Snail Games USA Inc. and its subsidiaries as of December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019 together with the notes thereto, and unaudited consolidated financial statements as of June 30, 2022 and for the six month periods ended June 30, 2022 and 2021 (the "interim period"). All references herein to "our consolidated financial statements," "our audited consolidated financial information," "our unaudited consolidated financial information," "our audited consolidated financial statements" and "our unaudited consolidated financial statements," are to consolidated financial statements of Snail Games USA included elsewhere in this prospectus.

The financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

Our fiscal year ends on December 31. References in this prospectus to a fiscal year, such as "fiscal year 2021," relate to our fiscal year ended on December 31 of that calendar year.

Non-GAAP Measures

This prospectus contains certain financial measures, including Bookings and Adjusted EBITDA (each as defined below), that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ("GAAP"). We refer to these measures as "non-GAAP" financial measures or information.

For more information and a reconciliation of such non-GAAP measures to the closest comparable GAAP financial measure, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Performance Metrics and Non-GAAP Measures — Bookings and Adjusted EBITDA."

Key Performance Metrics

We monitor Units Sold (as defined below) as a key performance metric in evaluating the performance of our console and PC game business. We define "Units Sold" as the number of game titles purchased through digital channels by an individual end user. Under this metric, the purchase of a standalone game, downloadable content ("DLC"), Season Pass or bundle on a specific platform are individually counted as a unit. For example, an individual who purchases a standalone game and DLC on one platform, a Season Pass on another platform and a bundle on a third platform would count as four Units Sold. Similarly, an individual who purchases three standalone game titles on the same platform would count as three Units Sold.

Units Sold may be impacted by several factors that could cause fluctuations on a quarterly basis, such as game releases, promotional sales on digital platforms, console release cycles and new digital platforms. Future growth in Units Sold will depend on our ability to launch new games and features and the effectiveness of marketing strategies.

Industry Data

This prospectus includes market and industry data that has been obtained from third party sources, including industry publications, as well as industry data prepared by our management on the basis of its knowledge of and experience in the industries in which we operate (including our management's estimates and assumptions relating to such industries based on that knowledge). Management's knowledge of such industries has been developed through its experience and participation in these industries. While our management believes the third-party sources referred to in this prospectus are reliable, neither we nor our management have independently verified any of the data from such sources referred to in this prospectus or ascertained the underlying economic assumptions relied upon by such sources. Internally prepared and third-party market forecasts in particular are estimates only and may be inaccurate, especially over long periods of time. In addition, the underwriters have not independently verified any of the industry data prepared by management or ascertained the underlying estimates and assumptions relied upon by management. Forecasts and other forward-looking information with respect to industry, market, business

and other data are subject to the same qualifications and additional uncertainties regarding the other forward-looking statements in this prospectus. See "Cautionary Statement Regarding Forward-Looking Statements." Furthermore, references in this prospectus to any publications, reports, surveys or articles prepared by third parties should not be construed as depicting the complete findings of the entire publication, report, survey or article. The information in any such publication, report, survey or article is not incorporated by reference in this prospectus.

Trademarks

We own or have rights to trademarks, service marks and trade names that we use in connection with the operation of our business, including our corporate name, logos and website names. Other trademarks, service marks and trade names appearing in this prospectus are the property of their respective owners. Solely for convenience, some of the trademarks, service marks and trade names referred to in this prospectus are listed without the ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, service marks and trade names.

Other

Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the option granted to the underwriters to purchase up to additional shares of Class A common stock in connection with the offering. In addition, as presented herein, the number of shares of Class A and Class B common stock to be outstanding after this offering excludes (i) shares of Class A common stock reserved for future issuance under our equity incentive plan, which we expect to become effective prior to the completion of this offering, and (ii) shares of Class A common stock issuable upon the full exercise of the Underwriters' Warrants. See "Underwriting."

SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all the information that may be important to you and we urge you to read this entire prospectus carefully, including the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and our consolidated financial statements and notes thereto included elsewhere in this prospectus, before deciding to invest in our Class A common stock.

Overview

Our mission is to provide high-quality entertainment experiences to audiences around the world.

We are a leading, global independent developer and publisher of interactive digital entertainment for consumers around the world. We have built a premier portfolio of premium games designed for use on a variety of platforms, including consoles, PCs and mobile devices. For four of the last six years ended December 2021, most recently in 2020, *ARK: Survival Evolved* was a top-25 seller on the Steam platform across all game genres. Our expertise in technology, in-game ecosystems and monetization of online multiplayer games has enabled us to assemble a broad portfolio of intellectual property across multiple media formats and technology platforms. Our flagship franchise from which we generate the substantial majority of our revenues, *ARK: Survival Evolved*, is a leader within the sandbox survival genre with over 76.5 million console and PC installs, which include 38.4 million installs from free promotions, through June 30, 2022. In the six months ended June 30, 2022, *ARK: Survival Evolved* averaged a total of 395,150 daily active users ("DAUs") on the Steam and Epic platforms, and we experienced a peak of approximately 755,000 DAUs in June 2020. We define "daily active users" as the number of unique users who play any given game on any given day. For the years ended December 31, 2021, 2020 and 2019, we generated 90.7%, 89.5% and 80.5%, respectively, of our revenues from *ARK: Survival Evolved*.

According to Newzoo, from 2021 to 2025, the global gaming industry is expected to grow approximately 17% from $192.7 billion in 2021 to $225.7 billion in 2025. In 2021, the global gaming market sales represented approximately 27% larger than the combined revenue generated by the global music, cinema and "over-the-top" ("OTT") markets, according to Newzoo and PwC. The shift towards online game play along with in-game monetization and new platforms have fundamentally transformed the way consumers interact with video games. Moreover, digital distribution has democratized developer access, leading to an expansion of new titles to address consumer preferences. At Snail, we focus on building compelling interactive entertainment franchises, with an aim of ultimately creating a world-class metaverse driven by player-created content. We believe success in delivering a highly engaging consumer experience results from a combination of best-in-class creativity and innovative use of leading, cutting-edge technology and platforms.

Our roots trace back to the beginnings of the massively multiplayer online role-playing games ("MMORPG"), with early titles including *Age of Wushu*. Our long history provides us with substantial experience that we leverage to identify and invest in promising game development studios and to manage the growth of our games into AAA titles. We collaborate with talented development teams, providing our expertise, capital, technological resources, customer service, marketing strategy and other services to achieve a successful outcome.

We optimize our development pipeline and target specific market segments by publishing games under several specialized brands through our two publishing labels, Snail Games USA and Wandering Wizard. Our distribution strategy utilizes Steam's early access feature to achieve faster go-to-market times. We utilize proprietary technology, including a versatile game engine and advanced server technology, to heighten artistic detail and increase player engagement.

We attribute our continued success to several differentiating elements.

- **Perseverance**: We are called Snail because we admire a snail's perseverance in achieving its goals. We maintain a disciplined approach to our game development, financial management and strategic acquisitions as we seek to deliver long-term value.
- **Innovation**: We believe innovation is at the core of a highly engaging entertainment experience. Our titles span from indie to our AAA franchise *ARK: Survival Evolved*. We created the Wandering Wizard label to allow us to invest and grow indie titles built by bright, passionate teams.

- **Technology**: We utilize advanced and proprietary technologies to drive demand and optimize costs. Our proprietary micro-influencer platform, *NOIZ*, enables us to substantially broaden our influencer base at an advantaged cost, and our game and server technology provide a highly customizable development infrastructure.
- **Collaboration**: We partner with talented independent studios for game development. Development teams, some of which are our wholly owned subsidiaries, are provided capital and other critical resources and are afforded a high degree of autonomy. We believe this model best preserves the culture and creativity of the development team and encourages the development of successful games.
- **Developers**: We believe in the importance of maintaining a broad developer network to ensure the simultaneous development of high-quality games. We have seven internal development studios and we partner with two related-party development studios from AAA to indie located in the United States and internationally.
- **Experience**: Our management team has deep knowledge of the gaming landscape based on more than two decades of experience in the gaming industry. Our Founder and Chairman, Mr. Shi, was a pioneer in sandbox and MMORPG games, and our Chief Executive Officer, Jim Tsai, has a deep understanding of game development and publishing with more than 25 years of experience. Our industry experience is foundational to our success in development and publishing and helps us to quickly identify attractive acquisitions and partnerships opportunities.

Our dedication to provide audiences with high-quality entertainment experiences utilizing the latest gaming technology has produced strong user engagement, continued revenue growth, and increased cash flows. Through June 30, 2022, our *ARK* franchise game has been played for more than 2.8 billion hours with an average playing time per user of more than 158 hours and with the top 20% of all players spending over 100 hours in the game, according to data related to the Steam platform. For the years ended December 31, 2021, 2020 and 2019, our net revenue was $106.7 million, $124.9 million and $86.3 million, respectively, representing a compound annual growth rate of 11.2%. We have maintained a diversified revenue base across platforms, with approximately 44% of fiscal year 2021 revenue from consoles, 40% from PC and 12% from mobile platforms. We had net income of $7.9 million for the year ended December 31, 2021 as compared to $29.8 million for the year ended December 31, 2020 and net loss of $(15.2) million for the year ended December 31, 2019.

Our Heritage and Expertise

Snail Games USA was founded in 2009 as a subsidiary of Suzhou Snail Digital Technology Co. Ltd. (“Suzhou Snail”), and our heritage and knowledge extends to our Founder and Chairman’s creation of Suzhou Snail. Suzhou Snail was founded in the early 2000s to fulfill a need for gaming in Asia. Our Founder and Chairman, Mr. Shi, became an early adopter of PC-based online free-to-play gaming, and Suzhou Snail became a pioneer in MMORPG games, releasing successful titles such as Age of Wushu. Amid transformations in the global gaming industry in the mid-2000s, our initial goal was to serve as the publisher for Suzhou Snail’s games in the United States. We rapidly transformed our business model to include development and publishing of independently sourced content, pursuing a premium game strategy anchored by diversified development teams. In 2015, we partnered with Studio Wildcard to develop our flagship franchise, *ARK*. In 2022, Suzhou Snail effected a spin-off and Snail Games USA became an independent entity. Our heritage in free-to-play games and operating history in premium games has afforded us with deep knowledge of the global gaming marketplace and has enabled us to develop a successful value proposition for our consumers and developers.

Market Opportunity

We serve a large addressable market in a dynamic industry with strong growth tailwinds. From 2016 to 2021, the video game industry has grown at over 14% CAGR. The global gaming market was valued over $192.7 billion in 2021 and is projected to grow to $225.7 billion in 2025, representing a 4% CAGR as its popularity continues to flourish mainstream. In 2021, there were over one billion console and PC (excluding mobile) gamers worldwide, according to IDC. More than 75% of gamers are age 21 or older, and the vast majority of gamers are medium-to-high earners with full-time jobs, according to Newzoo. The combination

of these statistics illustrates a quickly growing market with a highly engaged target demographic with purchasing power towards entertainment. Within the video game industry, the console and PC gaming segment of the global games industry is estimated to account for 47% of the total market in 2022. The sandbox survival category is an attractive genre within gaming because it is truly "one-size-fits-all." We have developed and invested in various successful sandbox survival titles since 2015, including our flagship franchise, *ARK*. In addition to gaming, we believe there are several adjacent market opportunities driven by the proliferation of streaming and eSports: the global eSports audience is projected to reach 532 million viewers and surpass $1.4 billion in revenue in 2022.

Our Value Proposition

- **Value proposition for gamers**: We aim to provide high-quality entertainment experience to gamers by offering frequent new content and endless game play possibility as key value propositions to our players.
- **Value proposition for developers**: Our business model is dependent on partnerships with developers, and we offer key value propositions of collaborative partnership, culture of innovation and technology to our developers.

Our Platform

Our strategic flywheel is anchored by our dedication to delivering high-quality, compelling entertainment experiences and is driven by our capabilities in publishing, developing and creating proprietary technology. Growth in the number of published titles allows us to invest in new development teams and proprietary technology, which expand the number of titles we publish in a self-reinforcing loop. As the quality of our games increases, we are well-positioned to attract more users and more influencers. With increased influencers through our propriety micro-influencer platform, *NOIZ*, we are able to reach a broader audience and increase user engagement within our games. This drives additional revenue, which we use to increase our developer network and to build proprietary technology. Our technology, along with our collaborative, innovative culture attracts talented developers, which in turn result in an increased number of high-quality games.

Our Key Strengths

- **Top-ranked category defining franchise with a track record of growth**: Our dedication to our customers and innovative game development has resulted in our position as a top-ranked category defining franchise, with a track record of growth. Our flagship franchise, *ARK: Survival Evolved*, is a leader within the sandbox survival genre with over 76.5 million console and PC installs through June 30, 2022. *ARK*: *Survival Evolved* has been a top-25 selling game on the Steam platform by gross

revenue in each year we released an *ARK* DLC. For the six months ended June 30, 2022, *ARK: Survival Evolved* averaged a total of 395,150 DAUs on the Steam and Epic platforms, and we experienced a peak of approximately 755,000 DAUs in June 2020.

- **Proven expertise in creating successful gaming franchises**: We have proven expertise in creating successful gaming franchises. We are a multi-platform publisher with over 12 years of experience in creating culturally influential game titles, while demonstrating financial growth. As of June 30, 2022, we have more than 20 game titles.
- **IP portfolio spanning across multiple media formats and technology platforms to captivate end user**: We license and own an IP portfolio spanning across multiple media formats and technology platforms to captivate end users. Our primary use of IP is to generate successful video games within and beyond the sandbox survival genre.
- **Collaborative development process between developers and management**: We continue to evolve with the industry with our deep pipeline of leading video game franchises such as *ARK: Survival Evolved*, *Atlas*, *Last Oasis*, *Dark and Light* and *Outlaws of the Old West*. Our success in game development and in keeping up with industry trends is partially attributed to our collaborative relationships with video game development studios, industry leaders, technology providers and distribution platforms. We offer developers freedom by giving them access to the wide breadth of the Snail platform and resources so they can do what they do best: create.
- **Innovative use and creation of next-gen technologies and platforms**: We use innovative technology to serve our customers, allowing us to provide high-quality user experiences and services. Our proprietary video game technology includes a versatile game engine, development pipeline tools, advanced rendering technology and advanced server and network operations.
- **Robust financial profile combined with proven track-record of capital efficiency and growth**: We have a robust financial profile, combined with a proven track-record of capital efficiency and growth. Between 2019 and 2021, our net revenue grew by 23.7%, representing a compound annual growth rate of 11.2%. We are focused on an organic growth strategy in our already successful video gaming business, but also on leveraging the same IP across multiples vectors of digital entertainment and technology.
- **Visionary management team well versed in industry and business**: We attribute much of our success to our visionary senior management and business development teams, which have a deep understanding of games and global video markets and aim to build innovative products for gamers. Our founder and other members of our management and business development teams are seasoned gamers, who lead and provide insight into gaming development from a first-hand user's perspective. We operate in an ecosystem in which our leaders employ a hands-on approach, as each developer is able to get in direct contact with our founder and receive one-on-one feedback and mentorship.

Our Growth Strategy

- **Continue to grow our successful *ARK: Survival Evolved* franchise**: Our primary strategy is to capitalize on our franchise and focus on delivering unique games and content, offering services that extend and enhance the experience, and connecting more players across more platforms. We believe the breadth and depth of our multi-platform, services offerings, and our use of multiple business models and distribution channels provide us with strategic advantages.
- **Continue to build a strong pipeline of new content via Snail Games USA and our independent label, Wandering Wizard**: Building on our strong established franchises and creating new franchises through compelling new content is at the core of our business. We endeavor to reach as many consumers as possible by offering our content on multiple platforms. Currently, we have five console and PC games under development that are expected to be released in the next five years. Our independent label, Wandering Wizard, allows us to publish independent games of different graphical quality and different genres at lower acquisition cost while utilizing our proven development and distribution strategies.
- **Continue to expand *NOIZ*, our micro-influencer marketing business, and use the platform to bolster our marketing initiatives and eCommerce revenue**: We are focused on reaching more players whenever

and wherever they want to play. We believe that we can add value to our network by utilizing content creators and micro-influencers to connect to a world of play by offering an interactive platform for players to engage in. We created our proprietary, full-service marketing platform, *NOIZ*, where we have direct relationships with influencers and save on third-party costs. *NOIZ* helps aspiring game streamers and game companies reach a wider audience, diversify marketing spend and income streams, and build their own brands easily and professionally at a large scale.

- **Continue investing in new technologies and platforms to efficiently capitalize on emerging trends**: We provide a variety of digitally delivered products and games that are played online and on mobile platforms, such as tablets and smartphones; as such, there are various opportunities for us to grow and enhance profitability. We will continue investing in new distribution channels such as medias of streaming, animation, television and eSports as opportunities in platform distribution as well as DLCs arise to expand our reach and grow our business.
- **Scale our operations through international market expansion and strategic acquisitions**: In line with our growth strategy, we plan to complete acquisitions to expand our gaming offerings, obtain talent, and expand into new markets. We continue to evaluate strategic acquisition opportunities in areas such as studios, publishers and agencies. We may also pursue joint ventures or establish subsidiaries with strategic partners as well as make investments in interactive gaming and entertainment business as part of our long-term business strategy.

Risk Factors Summary

Our business is subject to a number of risks of which you should be aware before making an investment decision. You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth in the section titled "Risk Factors" before deciding whether to invest in our Class A common stock. Among these important risks are, but such risks are not limited to, the following:

- We are dependent on the future success of our *ARK* franchise, and we must continue to publish "hit" titles or sequels to such "hit" titles in order to compete successfully in our industry.
- If we do not consistently deliver popular, high-quality content in a timely manner, if we are not successful in meaningfully expanding our existing franchise, or if consumers prefer products from our competitors, our business may be negatively impacted.
- We rely on license agreements to publish certain games, including games in our *ARK* franchise. Failure to renew our existing content licenses on favorable terms or at all or to obtain additional licenses would impair our ability to introduce new games, improvements or enhancements or to continue to offer our current games, which would materially harm our business, results of operations, financial condition and prospects.
- We depend on our key management and product development personnel.
- Our management team has limited experience managing a public company.
- The COVID-19 pandemic and containment efforts across the globe have materially altered how individuals interact with each other and have materially affected how we and our business partners are operating, and the extent to which this situation will impact our future results of operations and overall financial performance remains uncertain.
- Our business is subject to the risks of earthquakes, fire, floods, public health crises and other natural catastrophes and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or other incidents or terrorism.
- Our industry is subject to rapid technological change, and if we do not adapt to, and appropriately allocate our resources among, emerging technologies and business models, our business may be negatively impacted.
- We rely on third-party platforms, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon

Appstore, to distribute our games and collect revenues generated on such platforms and rely on third-party payment service providers to collect revenues generated on our own platforms.

- We depend on servers and networks to operate our games with online features. If we were to lose functionality in any of these areas for any reason, our business may be negatively impacted.
- We may be unable to effectively manage the continued growth and the scope and complexity of our business, including our expansion into new business models that are untested and into adjacent business opportunities with large, established competitors.
- The interactive entertainment software industry is highly competitive.
- We are subject to product development risks, which could result in delays and additional costs, and often times we must adapt to changes in software technologies.
- Our business is subject to our ability to develop commercially successful products for the current video game platforms, which may not generate immediate or near-term revenues, and as a result, our business and operating results may be more volatile and difficult to predict during console transitions than during other times.
- Our results of operations or reputation may be harmed as a result of objectionable consumer- or other third party-created content, or if our distributors, retailers, development, and licensing partners, or other third parties with whom we are affiliated, act in ways that put our brand at risk.
- The products or services we release may contain defects, bugs or errors.
- External game developers may not meet product development schedules or otherwise fulfill their contractual obligations.
- Any cybersecurity-related attack, significant data breach, or disruption of the information technology systems or networks on which we rely could negatively impact our business.
- Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.
- If we are unable to protect the intellectual property relating to our material software, the commercial value of our products will be adversely affected, and our competitive position could be harmed.
- We will be a "controlled company" under the corporate governance rules of Nasdaq and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements. If we rely on the exemptions available to a "controlled company" you will not have the same protections afforded to stockholders of companies that are subject to such corporate governance requirements.
- Mr. Shi, our Founder and Chairman, controls us, and his ownership of our common stock will prevent you and other stockholders from influencing significant decisions.

Summary of the Transactions

Snail, Inc. ("Snail"), a Delaware corporation, was formed on January 11, 2022 and is the issuer of the Class A common stock offered by this prospectus, and Snail's activity to date has been de minimis. In connection with this offering, the stockholders of Snail Games USA will contribute their interests to Snail in exchange for a proportional amount of, in the case of all stockholders other than Mr. Shi and Ying Zhou, Class A common stock of Snail and, in the case of Mr. Shi and Ms. Zhou, Class B common stock of Snail. See "Principal Stockholders." Thereafter, Snail will be the sole stockholder of Snail Games USA, and all of our business operations will continue to be conducted through Snail Games USA and its subsidiaries. For more information, see "Our Organizational Structure."

Corporate Information

Snail was incorporated in the State of Delaware on January 11, 2022. Snail Games USA was incorporated in the State of California on September 22, 2009. Our principal executive office is located at 12049 Jefferson Boulevard, Culver City, California 90230. Our telephone number at this address

is (310) 988-0643. Our main website is *www.snailgamesusa.com*. The information contained in, or accessible through, our website is not incorporated by reference in, and should not be considered part of, this prospectus.

We have proprietary rights to trademarks, trade names and service marks appearing in this prospectus that are important to our business. Solely for convenience, the trademarks, trade names and service marks may appear in this prospectus without the ® and ™ symbols, but any such references are not intended to indicate, in any way, that we forgo or will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, trade names and service marks. All trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

Implications of Being an Emerging Growth Company

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, as amended (the "JOBS Act"). An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies in the United States. These provisions include:

- a requirement to have only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations disclosure in this prospectus;
- reduced executive compensation disclosure; and
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002.

We may choose to take advantage of some but not all of these reduced disclosure requirements. We may take advantage of these provisions until we are no longer an emerging growth company. We will remain an emerging growth company until the earliest to occur of: (1) (a) the last day of the fiscal year following the fifth anniversary of the closing of this offering, (b) the last day of the fiscal year in which our annual gross revenues are $1.07 billion or more, or (c) the date on which we are deemed to be a "large accelerated filer," under the rules of the SEC, which means the market value of our equity securities that is held by non-affiliates exceeds $700 million as of the end of our second quarter and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

In addition, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Emerging Growth Company Status." We have elected to use the extended transition period under the JOBS Act. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

Controlled Company

Upon completion of this offering, Mr. Shi, our Founder and Chairman, will control a majority of the voting power of our outstanding common stock. As a result, we will be a "controlled company" under Nasdaq corporate governance standards. As a controlled company, exemptions under such standards will free us from the obligation to comply with certain corporate governance requirements. See "Management — Corporate Governance — Controlled Company Exemption" for additional information.

THE OFFERING

This summary highlights information presented in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before investing in our Class A common stock. You should carefully read this entire prospectus before investing in our Class A common stock including "Risk Factors" and our consolidated financial statements.

Issuer	Snail, Inc.
Class A common stock offered by us	shares (or shares if the underwriters exercise in full their option to purchase additional shares).
Class A common stock to be outstanding immediately after this offering	shares (or shares if the underwriters exercise in full their option to purchase additional shares).
Class B common stock to be outstanding immediately after this offering	shares.
Total common stock to be outstanding immediately after this offering	shares (or shares if the underwriters exercise in full their option to purchase additional shares).
Voting rights	Upon consummation of this offering, the holders of our Class A common stock will be entitled to one vote per share, and the holders of our Class B common stock will be entitled to ten votes per share. Each share of Class B common stock may be converted into one share of Class A common stock at the option of the holder. If, on the record date for any meeting of the stockholders, the number of shares of Class B common stock then outstanding is less than % of the aggregate number of shares of Class A common stock and Class B common stock outstanding, then each share of Class B common stock will automatically convert into one share of Class A common stock. In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, except for certain transfers to other holders of Class B common stock or their affiliates or to certain unrelated third parties as described under "Description of Capital Stock — Conversion" and "Description of Capital Stock — Transfer of Shares." Holders of Class A common stock and Class B common stock will vote together as a single class on all matters unless otherwise required by law. Upon consummation of this offering, assuming no exercise of the underwriters' option to purchase additional shares, (1) holders of Class A common stock will hold approximately % of the combined voting power of our outstanding common stock and approximately % of our total equity ownership and (2) holders of Class B common stock will hold approximately % of the combined voting power of

	our outstanding common stock and approximately % of our total equity ownership. If the underwriters exercise their option to purchase additional shares in full, (1) holders of Class A common stock will hold approximately % of the combined voting power of our outstanding common stock and approximately % of our total equity ownership and (2) holders of Class B common stock will hold approximately % of the combined voting power of our outstanding common stock and approximately % of our total equity ownership. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting, conversion and transfer restrictions applicable to the Class B common stock. See "Description of Capital Stock" for a description of the material terms of our common stock.
Option to purchase additional shares	We have granted the underwriters the right to purchase up to an additional Class A common stock from us, within days of the date of this prospectus, at the public offering price, less underwriting discounts, on the same terms as set forth in this prospectus.
Listing	We intend to apply to list our Class A common stock on Nasdaq under the symbol "SNAL."
Use of proceeds	We estimate that the net proceeds to us from the offering will be approximately $. We intend to use the net proceeds from this offering for general corporate purposes, which may include funding future products or technologies, maintaining liquidity and funding our working capital solutions. We may also use a portion of the net proceeds to acquire, in-license or make investments in businesses, products, offerings and technologies, although we do not have agreements or commitments for any material acquisitions or investments at this time. We will have broad discretion in allocating the net proceeds from this offering. See "Use of Proceeds."
Dividend policy	We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors and will depend on various factors, including applicable laws, our results of operations, financial condition, future prospects and any other factors deemed relevant by our board of directors. See "Dividend Policy."
Lock-up agreements	We have agreed with the underwriters, subject to certain exceptions, not to offer, sell, or dispose of any shares of our share capital or securities convertible into or exchangeable or exercisable for any shares of our share capital during the -day period following the date of this prospectus. The members of our board of directors

	and our executive officers, as well as our stockholders, have agreed to substantially similar lock-up provisions, subject to certain exceptions. See "Underwriting."
Risk factors	See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should consider before deciding to invest in our Class A common stock.

The number of shares of Class A and Class B common stock to be outstanding after this offering excludes (i) shares of Class A common stock reserved for future issuance under our equity incentive plan, which we expect to become effective prior to the completion of this offering, and (ii) shares of Class A common stock issuable upon the full exercise of the Underwriters' Warrants. See "Underwriting".

Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the option granted to the underwriters to purchase up to additional shares of Class A common stock in connection with the offering.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth, for the periods and as of the dates indicated, our summary financial and other information. This information should be read in conjunction with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the notes thereto, included elsewhere in this prospectus. Our consolidated financial statements are prepared and presented in accordance with GAAP. Our historical results do not necessarily indicate results expected for any future periods.

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Consolidated Statements of Operations Data and Comprehensive Income (Loss):					
Revenues, net	$106.7	$124.9	$ 86.3	$43.5	$58.8
Cost of revenues	63.7	67.3	78.1	26.3	32.9
Gross profit	43.0	57.6	8.2	17.2	25.9
Operating expenses:					
General and administrative	16.4	22.9	20.3	10.7	9.1
Research and development	0.8	1.4	2.0	0.4	0.4
Advertising and marketing	0.3	1.1	0.7	0.4	0.1
Depreciation and amortization	0.8	0.9	1.0	0.3	0.4
Loss on disposal of fixed assets	0.1	0.1	—	—	—
Impairment of intangible assets	16.3	1.3	—	—	—
Total operating expenses	34.7	27.7	23.8	11.8	10.0
Income (loss) from operations	8.3	30.0	(15.7)	5.4	15.9
Other income (expense):					
Interest income	0.1	0.1	—	—	—
Interest income – related parties	1.6	0.9	0.5	0.6	0.7
Interest expense	(0.4)	(0.6)	(1.5)	(0.3)	(0.2)
Interest expense – related parties	—	—	(0.1)	—	—
Other income	0.5	0.5	—	0.3	0.5
Gain on sale of membership interest of equity investment	—	4.9	—	—	—
Foreign currency transaction loss	—	—	—	—	—
Equity in earnings (loss) of unconsolidated entity	(0.4)	0.7	(1.1)	—	(0.3)
Total other income (expense), net	1.4	6.6	(2.0)	0.6	0.7
Income (loss) before provision for income taxes	9.7	36.6	(17.7)	6.0	16.6
Income tax provision (benefit)	1.8	6.8	(2.5)	1.2	3.3
Net income (loss)	7.9	29.8	(15.2)	4.8	13.3
Net gain (loss) attributable to non-controlling interests	(0.6)	(0.9)	(1.3)	—	(0.3)
Net income (loss) attributable to Snail Games USA Inc.	**8.5**	**30.7**	**(13.9)**	**4.8**	**13.6**
Comprehensive income statement:					
Other comprehensive loss	(0.1)	(0.1)	(0.1)	(0.1)	0.1
Total other comprehensive income (loss)	**$ 8.4**	**$ 30.6**	**$(14.0)**	**$ 4.7**	**$13.7**

	As of June 30, 2022	
	Actual	As Adjusted
	(in millions)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$14.7	$
Total current assets	44.7	
Restricted cash	6.4	
Intangible assets, net – license – related parties	5.1	
Total liabilities	74.9	
Total equity	$ 6.0	$

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Key Performance Metrics and Non-GAAP Measures:					
Units Sold	7.0	8.3	4.1	2.7	4.1
Adjusted EBITDA	$25.5	$ 39.2	$ (15.1)	$ 6.1	$16.4
Bookings	$92.5	$132.1	$105.8	$40.5	$53.6

For a discussion of Units Sold and for reconciliations of net revenue to Bookings and net income (loss) to Adjusted EBITDA, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Performance Metrics and Non-GAAP Measures.”

RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. Before you invest in our Class A common stock, you should carefully consider the following risks, as well as general economic and business risks, and all of the other information contained in this prospectus. Any of the following risks could have a material adverse effect on our business, operating results and financial condition and cause the trading price of our Class A common stock to decline, which would cause you to lose all or part of your investment. When determining whether to invest, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes thereto.

Risks Related to Our Business and Industry

We are dependent on the future success of our ARK franchise, and we must continue to publish "hit" titles or sequels to such "hit" titles in order to compete successfully in our industry.

ARK is a "hit" product and has historically accounted for a substantial portion of our revenue. The *ARK* franchise contributed 90.7% of our net revenue for the year ended December 31, 2021, and our five best-selling franchises (including *ARK*), which may change year over year, in the aggregate accounted for 96.2% of our net revenue for the year ended December 31, 2021. If we fail to continue to develop and sell new commercially successful "hit" titles or sequels to such "hit" titles or experience any delays in product releases or disruptions following the commercial release of our "hit" titles or their sequels, our revenue and profits may decrease substantially, and we may incur losses. In addition, competition in our industry is intense and a relatively small number of hit titles account for a large portion of total revenue in our industry. Hit products offered by our competitors may take a larger share of consumer spending than we anticipate, which could cause revenue generated from our products to fall below our expectations. If our competitors develop more successful products or services at lower price points or based on payment models perceived as offering better value, or if we do not continue to develop consistently high-quality and well-received products and services, our revenue and profitability may decline.

If we do not consistently deliver popular, high-quality content in a timely manner, if we are not successful in meaningfully expanding our existing franchise, or if consumers prefer products from our competitors, our business may be negatively impacted.

Consumer preferences for games are usually cyclical and difficult to predict. Even the most successful games can lose consumer audiences over time, and remaining popular is increasingly dependent on the games being refreshed with new content or other enhancements. In order to remain competitive and maximize the chances that consumers select our products as opposed to the various entertainment options available to them and with which we compete, we must continuously develop new products or new content for, or other enhancements to, our existing products. These products or enhancements may not be well-received by consumers, even if well-reviewed and of high quality. Our competitors include very large corporations with significantly greater financial, marketing and product development resources than we have and many smaller competitors, particularly on the mobile platform. Our larger competitors may be able to leverage their greater financial, technical, personnel and other resources to provide larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties, as well as adopt more aggressive pricing policies to develop more commercially successful video game products than we do. Further, competitors may develop content that imitates or competes with our best-selling games, potentially reducing our sales or our ability to charge the same prices we have historically charged for our products. These competing products may take a larger share of consumer spending than anticipated, which could cause product sales to fall below expectations. If we do not continue to develop consistently high-quality and well-received games or enhancements to those games, if our marketing fails to resonate with our consumers, if we are not successful in meaningfully expanding our franchises further on the mobile platform or if consumers lose interest in a genre of games we produce, our revenues and profit margins could decline. In addition, our own best-selling products could compete with our other games, reducing sales for those other games. Further, a failure by us to develop a high-quality product, or our development of a product that is otherwise not well-received, could potentially result in additional expenditures to respond to consumer demands, harm our reputation, and increase the likelihood that our future products will not be

well-received. The increased importance of DLC to our business amplifies these risks, as DLC for poorly-received games typically generates lower-than-expected sales. The increased demand for consistent enhancements to our products also requires a greater allocation of financial resources to those products.

Additionally, consumer expectations regarding the quality, performance and integrity of our products and services are high. Consumers may be critical of our brands, games, services and/or business practices for a wide variety of reasons, and such negative reactions may not be foreseeable or within our control to manage effectively. For example, if our games or services, such as our proprietary online gaming service, do not function as consumers expect, whether because they fail to function as advertised or otherwise, our sales may suffer. The risk that this may occur is particularly pronounced with respect to our games with online features because they involve ongoing consumer expectations, which we may not be able to consistently satisfy. Our games with online features are also frequently updated, increasing the risk that a game may contain significant errors, or "bugs." If any of these issues occur, consumers may stop playing the game and may be less likely to return to the game as often in the future, which may negatively impact our business.

Further, delays in product releases or disruptions following the commercial release of one or more new products could negatively impact our business and reputation and could cause our results of operations to be materially different from expectations. If we fail to release our products in a timely manner, or if we are unable to continue to extend the life of existing games by adding features and functionality that will encourage continued engagement with the game, our business may be negatively impacted.

Additionally, the amount of lead time and cost involved in the development of high-quality products is increasing, and the longer the lead time involved in developing a product and the greater the allocation of financial resources to such product, the more critical it is that we accurately predict consumer demand for such product. If our future products do not achieve expected consumer acceptance or generate sufficient revenues upon introduction, we may not be able to recover the substantial up-front development and marketing costs associated with those products.

We rely on license agreements to publish certain games, including games in our ARK franchise. Failure to renew our existing content licenses on favorable terms or at all or to obtain additional licenses would impair our ability to introduce new games, improvements or enhancements or to continue to offer our current games, which would materially harm our business, results of operations, financial condition and prospects.

We license certain intellectual property rights from third parties, including related parties, and in the future, we may enter into additional agreements that provide us with licenses to valuable intellectual property rights or technology. In particular, we license intellectual property rights related to our *ARK* franchise from SDE, the parent company of Studio Wildcard, which is also an entity that is owned and controlled by the spouse of our Founder and Chairman, Mr. Shi. We entered into an original exclusive software license agreement with SDE in November 2015, which has been subject to periodic amendments throughout the duration of the *ARK* franchise. We are presently in negotiations to enter into an amended and restated exclusive software license agreement with SDE with respect to *ARK: Survival Evolved*. The terms of our license agreements with SDE may differ from those terms which would be negotiated with independent parties. In addition, we may have disputes with SDE that may impact our business, results of operations, financial condition and/or prospects. The *ARK* franchise contributed 90.7% of our net revenue for the fiscal year ended December 31, 2021. Even if our games that are dependent on third-party license agreements remain popular, any of our licensors could decide not to renew our existing license agreements or not to license additional intellectual property rights to us and instead license to our competitors or develop and publish its own games or other applications, competing with us in the marketplace. Moreover, many of our licensors develop games for other platforms and may have significant experience and development resources available to them should they decide to compete with us rather than license to us. For additional information concerning our license arrangements, including licensing agreements with affiliated third parties, see "Business — Intellectual Property."

Failure to maintain or renew our existing material licenses or to obtain additional licenses could impair our ability to introduce new games and new content or to continue to offer our current games, which could materially harm our business, results of operations and financial condition. If we breach our obligations under existing or future licenses, we may be required to pay damages and our licensors may have the right to terminate the license or change an exclusive license to a non-exclusive license. Termination of our license

agreements by a material licensor, such as SDE, would cause us to lose valuable rights, such as the rights to our *ARK* franchise, and would inhibit our ability to commercialize future games, which would harm our business, results of operations and financial condition. In addition, certain intellectual property rights may be licensed to us on a non-exclusive basis. The owners of nonexclusively licensed intellectual property rights would be free to license such rights to third parties, including our competitors, on terms that may be superior to those offered to us, which could place us at a competitive disadvantage. Moreover, our licensors may own or control intellectual property rights that have not been licensed to us and, as a result, we may be subject to claims, regardless of their merit, that we are infringing or otherwise violating the licensor's rights. In addition, the agreements under which we license intellectual property rights or technology from third parties and related parties are generally complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology or increase what we believe to be our financial or other obligations under the relevant agreement. Any of the foregoing could harm our competitive position, business, financial condition, results of operations and prospects.

We depend on our key management and product development personnel.

Our continued success will depend to a significant extent on our senior management team and maintaining positive relationships with our games' developers, including Studio Wildcard, and the product development personnel responsible for content creation and development of our *ARK* franchise. We are also highly dependent on the expertise, skill and knowledge of Mr. Shi, our Founder and Chairman, Mr. Jim Tsai, our Chief Executive Officer, and Mr. Peter Kang, our Chief Operating Officer.

The loss of the services of our executive officers, including Messrs. Shi, Tsai or Kang or certain key product development personnel, including those employed by studio partners, such as Studio Wildcard, could significantly harm our business. In addition, if one or more key employees were to join a competitor or form a competing company, we may lose additional personnel, experience material interruptions in product development, delays in bringing products to market and difficulties in our relationships with licensors, suppliers and customers, which would significantly harm our business. Failure to continue to attract and retain qualified management and creative personnel could adversely affect our business and prospects.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors and regulators and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely impact our business, operating results and financial condition.

The COVID-19 pandemic and containment efforts across the globe have materially altered how individuals interact with each other and have materially affected how we and our business partners are operating, and the extent to which this situation will impact our future results of operations and overall financial performance remains uncertain.

The ongoing COVID-19 pandemic and resulting social distancing and shelter-in-place orders put in place around the world have caused widespread disruption in global economies, productivity and financial markets and have materially altered the way in which we conduct our day-to-day business.

As a result of the COVID-19 pandemic, we temporarily closed our corporate headquarters in Culver City, California and implemented travel restrictions. Towards the end of the first quarter of 2020, we implemented a remote working program, and we engaged with significant vendors (such as Amazon), platform providers (such as Microsoft, Sony, Steam, Epic Games, Google and Apple), advertising partners (such as Facebook and Google) and other business partners to understand their operating conditions and continue to evaluate our business continuity plans. The full extent to which the COVID-19 pandemic and

the various responses to it impact our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the COVID-19 pandemic, including any potential future waves of the COVID-19 pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the COVID-19 pandemic; the availability and cost to access the capital markets; the effect on our players and their willingness and ability to pay for our games and services; disruptions or restrictions on our employees' ability to work and travel; and interruptions related to our cloud networking and gaming infrastructure and partners, including impacts on Amazon Web Services, gaming platform providers, advertising partners and customer service and support providers. During the COVID-19 pandemic, we may not be able to provide the same level of product features and customer support that our players expect from us, which could negatively impact our business and operations. While substantially all of our business operations can be performed remotely, many of our employees are juggling additional work-related and personal challenges, including preparing for a prolonged duration of remote working environments, adjusting communication and work practices to collaborate remotely with work colleagues and business partners, managing technical and communication challenges of working from home on a daily basis, looking after children as a result of remote-learning and school closures, making plans for childcare and caring for themselves, family members or other dependents who are or may become ill. We will continue to actively monitor the issues raised by the COVID-19 pandemic and may take further actions that alter our business operations, including as may be required by federal, state, local or foreign authorities or that we determine are in the best interests of our employees, players, partners and stockholders.

The COVID-19 pandemic and resulting social distancing, shelter-in-place and similar restrictions may have led to increased sales of our games, and correspondingly, increased revenues in the first half of 2020, relative to our quarterly historic trends. These increases in sales and revenues may not be indicative of our financial and operating results in future periods. The effects of the COVID-19 pandemic on society and player behavior are highly uncertain. For example, primarily during the second quarter of 2020, we saw increased sales and revenues relative to our quarterly forecasts and historic trends. During the third quarter of 2020, sales and revenues returned to levels more consistent with historical periods, a pattern which continued for the remainder of 2020 and in 2021. The changes in sales and revenues in the first half of 2020 may have also been due to factors in addition to or other than the COVID-19 pandemic, such the release of new content.

In addition to the potential direct impacts to our business, the global economy has experienced significant volatility as a result of the actions taken in response to COVID-19, and future government intervention remains uncertain. An uncertain or weakened global economy may impact our players and their purchasing decisions within our games, consumers' buying decisions across the globe and their impact on the allocation of advertising investments and the ability of our business partners to navigate this complex social health and economic environment, any of which could result in disruption to our business and results of our operations.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus and its variants, the existence of any additional waves of the COVID-19 pandemic, the extent and effectiveness of containment actions, continued progress towards widespread rapid testing and effective treatment alternatives and vaccinations, and the impact of these and other factors on our employees, players and business partners. If we are not able to respond to and manage the impact of such events effectively, our business may be harmed.

Our business is subject to the risks of earthquakes, fire, floods, public health crises and other natural catastrophes and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or other incidents, war or terrorism.

Our corporate headquarters is located in Culver City, California. Additionally, we rely on third-party infrastructure, enterprise applications and internal technology systems for our development, marketing, operational support and sales activities. The west coast of the United States, where our corporate headquarters are located, contains active earthquake zones and have been subject to numerous devastating wildfires and associated electrical blackouts. In the event of a catastrophic event, including a natural disaster such as an earthquake, hurricane, fire, flood, tsunami or tornado, or other catastrophic event such as power loss,

telecommunications failure, software or hardware malfunction, cyber-attack, war, terrorist attack or incident of mass violence in the Los Angeles area or elsewhere where our operations are located or where certain other systems and applications that we rely on are hosted, we may be unable to continue our operations and may endure significant system interruptions, reputational harm, delays in our application development, lengthy interruptions in our platform, breaches of data security and loss of critical data, all of which could have an adverse effect on our future operating results. In addition, natural disasters, cyber-attacks, escalation of geopolitical tensions, including as a result of escalations in the ongoing conflict between Russia and Ukraine, acts of terrorism, public health crises, such as pandemics and epidemics, or other catastrophic events could cause disruptions in our or our customers' businesses, national economies or the world economy as a whole.

Our industry is subject to rapid technological change, and if we do not adapt to, and appropriately allocate our resources among, emerging technologies and business models, our business may be negatively impacted.

Technology changes rapidly in the interactive entertainment industry. We must continually anticipate and adapt to emerging technologies, such as cloud-based game streaming, and business models, such as free-to-play and subscription-based access to a portfolio of interactive content, to stay competitive. Forecasting the financial impact of these rapidly changing technologies and business models is inherently uncertain and volatile. Supporting a new technology or business model may require partnering with a new platform, business, or technology partner, which may be on terms that are less favorable to us than those for more traditional technologies or business models. If we invest in the development of interactive entertainment products for distribution channels that incorporate a new technology or business model that does not achieve significant commercial success, whether because of competition or otherwise, we may not recover the often substantial up-front costs of developing and marketing those products, or recover the opportunity cost of diverting management and financial resources away from other products or opportunities. Further, our competitors may adapt to an emerging technology or business model more quickly or effectively than we do, creating products that are technologically superior to ours, more appealing to consumers, or both.

If, on the other hand, we elect not to pursue the development of products incorporating a new technology, or otherwise elect not to pursue new business models that achieve significant commercial success, it may have adverse consequences. It may take significant time and expenditures to shift product development resources to that technology or business model, and it may be more difficult to compete against existing products incorporating that technology or using that business model.

We rely on third-party platforms, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore, to distribute our games and collect revenues generated on such platforms and rely on third-party payment service providers to collect revenues generated on our own platforms.

Our games are primarily purchased, accessed and operated through Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, and in the case of our mobile games, the Apple App Store, the Google Play Store and the Amazon Appstore. Substantially all of the games, DLC and in-game virtual items that we sell are purchased using the payment processing systems of these platforms and, for fiscal year ended December 31, 2021, 91% of our revenues were generated through Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore. Consequently, our expansion and prospects depend on our continued relationships with these providers, and any other emerging platform providers that are widely adopted by our target players. In addition, having such a large portion of our total net revenues concentrated in a few counterparties reduces our negotiating leverage. We are subject to the standard terms and conditions that these platform providers have for game developers, which govern the content, promotion, distribution, operation of games and other applications on their platforms, as well as the terms of the payment processing services provided by the platforms, and which the platform providers can change unilaterally on short notice or without notice. As such, our business would be harmed if:

- the platform providers discontinue or limit our access to their platforms;
- governments or private parties, such as internet providers, impose bandwidth restrictions, increase charges or restrict or prohibit access to those platforms;

- the platforms increase the fees they charge us;
- the platforms modify their algorithms, communication channels available to developers, respective terms of service or other policies;
- the platforms decline in popularity;
- the platforms adopt changes or updates to their technology that impede integration with other software systems or otherwise require us to modify our technology or update our games in order to ensure players can continue to access our games and content with ease;
- the platforms elect or are required to change how they label free-to-play games or take payment for in-game purchases;
- the platforms block or limit access to the genres of games that we provide in any jurisdiction;
- the platform experiences a bankruptcy or other form of insolvency event; or
- we are unable to comply with the platform providers' terms of service.

Moreover, if our platform providers do not perform their obligations in accordance with our platform agreements or otherwise meet our business requirements, we could be adversely impacted. For example, in the past, some of these platform providers have experienced outages for short periods of time, unexpectedly changed their terms or conditions, or experienced issues with their features that permit our players to purchase games or in-game virtual items. In addition, if we do not adhere to the terms and conditions of our platform providers, the platform providers may take actions to limit the operations of, suspend or remove our games from the platform, and/or we may be exposed to liability or litigation. For example, in August 2020, Epic Games, Inc. ("Epic Games"), attempted to bypass Apple and Google's payment systems for in-game purchases with an update that allowed users to make purchases directly through Epic Games in its game, Fortnite. Apple and Google promptly removed Fortnite from their respective app stores, and Apple filed a lawsuit seeking injunctive relief to block the use of Epic Games' payment system and sought monetary damages to recover funds made while the updated version of Fortnite was active.

If any such events described above occur on a short-term or long-term basis, or if these third-party platforms and online payment service providers otherwise experience issues that impact the ability of players to download or access our games, access social features, or make in-game purchases, it would have a material adverse effect on our brands and reputation, as well as our business, financial condition and results of operations.

We depend on servers and networks to operate our games with online features. If we were to lose functionality in any of these areas for any reason, our business may be negatively impacted.

Our business relies on the continuous operation of servers, the vast majority of which are owned and operated by third parties. Although we strive to maintain more than sufficient server capacity, and provide for active redundancy in the event of limited hardware failure, any broad-based catastrophic server malfunction, a significant service-disrupting attack or intrusion by hackers that circumvents security measures, a failure of disaster recovery service or the failure of a company on which we are relying for server capacity to provide that capacity for whatever reason would likely degrade or interrupt the functionality of our games with online features, and could prevent the operation of such games altogether, any of which could result in the loss of sales for, or in, such games. The risk is particularly pronounced with respect to our multiplayer game services, which rely on systems hosted in a hybrid of data centers across the world as well as cloud providers. Further, insufficient server capacity, in particular during times of peak player activity corresponding with the release of new games or DLC, could affect our ability to provide game services, which could negatively impact our business. Conversely, if we overestimate the amount of server capacity required by our business, we may incur additional operating costs.

We also rely on platforms and networks operated by third parties, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store and Google Stadia, for the sale and digital delivery of downloadable console and PC game content, the functionality of our games with online features. Similarly, we rely on those platforms and networks, as well as the continued operation of the Apple App Store, the

Google Play Store and the Amazon Appstore for our free-to-play games. An extended interruption to any of these services could adversely affect our ability to sell and distribute our digital products and operate our games with online features, which could result in a loss of revenue and otherwise negatively impact our business.

We may be unable to effectively manage the continued growth and the scope and complexity of our business, including our expansion into new business models that are untested and into adjacent business opportunities with large, established competitors.

In recent years, we have experienced significant growth in the scope and complexity of our business. From time to time we seek to establish and implement new business models, including eSports offerings, our *NOIZ* influencer platform and animation ventures. Forecasting the success of any new business model is inherently uncertain and depends on a number of factors both within and outside of our control. Our actual revenue and profit for these businesses may be significantly greater or less than our forecasts. In addition, these new business models could fail, resulting in the loss of our investment in the development and infrastructure needed to support these new business models, as well as the opportunity cost of diverting management and financial resources away from more successful and established businesses. While we anticipate growth in these areas of our business, consumer demand is difficult to predict as a result of a number of factors, including satisfaction with our products and services, our ability to provide engaging products and services, reliability of our infrastructure and the infrastructure of our partners, pricing, the actual or perceived security of our and our partners information technology systems and reductions in consumer spending levels.

We do not know to what extent these and any future expansions into new business models will be successful. Further, even if successful, our aspirations for growth in our core businesses and these adjacent businesses could create significant challenges for our management, operational, and financial resources. If not managed effectively, this growth could result in the over-extension of our operating infrastructure, and our management systems, information technology systems, and internal controls and procedures may not be adequate to support this growth. Failure by these new businesses or failure to adequately manage our growth in any of these ways may damage our brand or otherwise negatively impact our core business. Further, the success of these new businesses is largely contingent on the success of our underlying franchises and as such, a decline in the popularity of a franchise may impact the success of the new businesses adjacent to that franchise.

The interactive entertainment software industry is highly competitive.

We compete for the sale of interactive entertainment software with Sony and Microsoft, each of which is a large developer and marketer of software for its own platforms. We also compete with game publishers, such as Activision Blizzard, Inc., Electronic Arts Inc., Take-Two Interactive, Ubisoft, Epic Games, Tencent, Zynga, Netmarble, Sony, Microsoft and Nintendo primarily for game development on consoles, PCs and mobile devices. Across the sandbox survival game genre, we primarily compete with Embracer Group, Saber Group, Enand Global 7, FunCom, Axolot Games and Facepunch Studios. As our business is dependent upon our ability to develop hit titles, which require increasing budgets for development and marketing, the availability of significant financial resources has become a major competitive factor in developing and marketing software games. Some of our competitors have greater financial, technical, personnel and other resources than we do and are able to finance larger budgets for development and marketing and make higher offers to licensors and developers for commercially desirable properties. Our titles also compete with other forms of entertainment, such as social media and casual games, in addition to film, television and audio and video products featuring similar themes, online computer programs and other entertainment, which may be less expensive or provide other advantages to consumers.

A number of software publishers who compete with us have developed and commercialized or are currently developing online games. As technological advances significantly increase the availability of online games and as consumer acceptance of online gaming grows substantially, it could result in a decline in our platform-based software sales and negatively affect sales of such products.

Additionally, we compete with other forms of entertainment and leisure activities. While we monitor general market conditions, significant shifts in consumer demand that could materially alter public

preferences for different forms of entertainment and leisure activities are difficult to predict. Failure to adequately identify and adapt to these competitive pressures could have a negative impact on our business.

We are subject to product development risks, which could result in delays and additional costs, and often times we must adapt to changes in software technologies.

We depend on our internal development studios and related-party developers to develop new interactive entertainment software within anticipated release schedules and cost projections. Our development costs can be substantial. If we or our related-party developers experience unanticipated development delays, financial difficulties or additional costs, for example, as a result of the COVID-19 pandemic or increasing costs due to inflation, we may not be able to release titles according to our schedule and at budgeted costs. There can be no assurance that our products will be sufficiently successful so that we can recoup these costs or make a profit on these products.

Additionally, in order to stay competitive, our internal development studios must anticipate and adapt to rapid technological changes affecting software development, such as cloud-based game streaming. Any inability to respond to technological advances and implement new technologies could render our products obsolete or less marketable. Further, the failure to pursue the development of new technology, platforms, or business models that obtain meaningful commercial success in a timely manner may negatively affect our business, resulting in increased production or development costs and more strenuous competition.

Our business is subject to our ability to develop commercially successful products for the current video game platforms, which may not generate immediate or near-term revenues, and as a result, our business and operating results may be more volatile and difficult to predict during console transitions than during other times.

We derive most of our revenue from publishing video games on third-party platform providers, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore, which, in the aggregate, comprised 91% of our net revenue by product platform for the fiscal year ended December 31, 2021. The success of our business is subject to the continued popularity of these platforms and our ability to develop commercially successful products for these platforms.

Historically, when next generation consoles are announced or introduced into the market, consumers have typically reduced their purchases of products for prior-generation consoles in anticipation of purchasing a next-generation console and products for that console. During these periods, sales of the products we publish may decline until new platforms achieve wide consumer acceptance. Console transitions may have a comparable impact on sales of DLC, amplifying the impact on our revenues. This decline may not be offset by increased sales of products for the next-generation consoles. In addition, as console hardware moves through its life cycle, hardware manufacturers typically enact price reductions, and decreasing prices may put downward pressure on software prices. During console transitions, we may simultaneously incur costs both in continuing to develop and market new titles for prior-generation video game platforms, which may not sell at premium prices, and also in developing products for next-generation platforms, which may not generate immediate or near-term revenues. As a result, our business and operating results may be more volatile and difficult to predict during console transitions than during other times.

Our results of operations or reputation may be harmed as a result of objectionable consumer- or other third party-created content, or if our distributors, retailers, development and licensing partners, or other third parties with whom we are affiliated, act in ways that put our brand at risk.

Certain of our games support collaborative online features that allow consumers to communicate with one another and post narrative comments, in real time, that are visible to other consumers. Additionally, certain of our games allow consumers to create and share “user-generated content” that is visible to other consumers. From time to time, objectionable and offensive consumer content may be distributed within our games and on our broadcasts through these features or to gaming websites or other sites or forums with online chat features or that otherwise allow consumers to post comments. We may be subject to lawsuits, governmental regulation or restrictions, and consumer backlash (including decreased sales and harmed reputation), as a result of consumers posting offensive content.

In many cases, our business partners and other third party affiliates are given access to sensitive and proprietary information or control over our intellectual property to provide services and support to our team. These third parties may misappropriate or misuse our information or intellectual property and engage in unauthorized use of it. Further, the failure of these third parties to provide adequate services and technologies or to adequately maintain or update their services and technologies could result in a disruption to our business operations or an adverse effect on our reputation and may negatively impact our business. At the same time, if the media, consumers or employees raise any concerns about our actions vis-à-vis third parties, including consumers who play our games, this could also harm our business, results of operations or our reputation.

The products or services we release may contain defects, bugs or errors.

Our products and services contain or rely upon extremely complex software programs and are difficult to develop and distribute. We have quality controls in place to detect defects, bugs or other errors in our products and services before they are released. Nonetheless, these quality controls are subject to human error, overriding and resource or technical constraints. In addition, the effectiveness of our quality controls and preventative measures may be negatively affected by the distribution of our workforce resulting from, among other things, the COVID-19 pandemic. As such, these quality controls and preventative measures may not be effective in detecting all defects, bugs or errors in our products and services before they have been released into the marketplace. In such an event, the technological reliability and stability of our products and services could be below our standards and the standards of our players, and our reputation, brand and sales could be adversely affected. In addition, we could be required to, or may find it necessary to, offer a refund for the product or service, suspend the availability or sale of the product or service or expend significant resources to cure the defect, bug or error each of which could significantly harm our business and operating results.

External game developers may not meet product development schedules or otherwise fulfill their contractual obligations.

We are heavily reliant upon contracts with external game developers to develop our games or distribute our games. While we maintain contractual protections, we have less control over the product development schedules of games developed by external developers. We depend on their ability to meet product development schedules which could be negatively affected by, among other things, the distributed workforce model resulting from the COVID-19 pandemic or the loss of key development personnel. In addition, disputes occasionally arise with external developers, including with respect to game content, launch timing, achievement of certain milestones, the game development timeline, marketing campaigns, contractual terms and interpretation of such terms. If we have disputes with external developers or they cannot meet product development schedules, acquire certain approvals or are otherwise unable or unwilling to fulfill their contractual obligations to us, we may delay or cancel previously announced games, alter our launch schedule or experience increased costs and expenses, which could result in a delay or significant shortfall in anticipated revenue, harm our profitability and reputation and cause our financial results to be materially affected.

Any cybersecurity-related attack, significant data breach or disruption of the information technology systems or networks on which we rely could negatively impact our business.

In the course of our day-to-day business, we and third parties operating on our behalf and from which we license certain intellectual property create, store, and/or use commercially sensitive information, such as the source code and game assets for our interactive entertainment software products and sensitive and confidential information with respect to our customers, consumers, and employees. Our ability to effectively manage our business and coordinate the manufacturing, sourcing, distribution and sale of our interactive entertainment software products depends significantly on the reliability and capacity of these systems. We are critically dependent on the integrity, security and consistent operations of these systems. A malicious cybersecurity-related attack, intrusion or disruption by hackers (including through spyware, ransomware, viruses, phishing, denial of service and similar attacks) or other breach of the systems on which such source code and assets, account information (including personal information) and other sensitive data is stored could lead to piracy of our software, fraudulent activity, disclosure or misappropriation of, or access to, our customers', consumers' or employees' personal information, or our own business data. Such incidents

could also lead to product code-base and game distribution platform exploitation, should undetected viruses, spyware, or other malware be inserted into our products, services, or networks, or systems used by our consumers. We have implemented cybersecurity programs and the tools, technologies, processes, and procedures intended to secure our data and systems, and prevent and detect unauthorized access to, or loss of, our data, or the data of our customers, consumers or employees. However, because these cyberattacks may remain undetected for prolonged periods of time and the techniques used by criminal hackers and other third parties to breach systems are constantly evolving, change frequently and we may be unable to anticipate these techniques or implement adequate preventative measures. A data intrusion into a server for a game with online features or for our proprietary online gaming service could also disrupt the operation of such game or platform. If we are subject to cybersecurity breaches, or a security-related incident that materially disrupts the availability of our products and services, we may have a loss in sales or subscriptions or be forced to pay damages or incur other costs, including from the implementation of additional cyber and physical security measures, or suffer reputational damage. If there were a public perception that our data protection measures are inadequate, whether or not the case, it could result in reputational damage and potential harm to our business relationships or the public perception of our business model. In addition, such cybersecurity breaches may subject us to legal claims or proceedings, like individual claims and regulatory investigations and actions, including fines, especially if there is loss, disclosure, or misappropriation of, or access to, our customers' personal information or other sensitive information, or there is otherwise an intrusion into our customers' privacy.

If we do not successfully invest in, establish and maintain awareness of our brand and games or if we incur excessive expenses promoting and maintaining our brand or our games, our business, financial condition, results of operations or reputation could be harmed.

We believe that establishing and maintaining our brand is critical to maintaining and creating favorable relationships with players, platform providers, advertisers and content licensors, as well as competing for key talent. Increasing awareness of our brand and recognition of our games is particularly important in connection with our strategic focus on in-licensing games successfully cross-promoting such games. In addition, globalizing and extending our brand and recognition of our games requires significant investment and extensive management time to execute successfully. Although we make significant sales and marketing expenditures in connection with the launch of our games, these efforts may not succeed in increasing awareness of our brand or the new games. If we fail to increase and maintain brand awareness and consumer recognition of our games, our potential revenues could be limited, our costs could increase and our business, financial condition, results of operations or reputation could suffer.

In addition, if a game contains objectionable content or the messaging functionality of our games is abused, we could experience damage to our reputation and brand. Despite reasonable precautions, some consumers may be offended by certain game content, including user-generated content, the third-party advertisements displayed in our mobile games, or by treatment of other users. If consumers believe that a game we published or third-party advertisement displayed in a game contains objectionable content, it could harm our brand and consumers could refuse to play it and could pressure the platform providers to remove the game from their platforms. For example, we rely on third-party advertising partners to display advertisements within our mobile games, and may experience in the future instances where offensive or objectionable content has been displayed in our games through our advertising partners. While this may violate the terms of our agreements with these advertising partners, our reputation and player experience may suffer. Furthermore, steps that we may take in response to such instances, such as temporarily or permanently shutting off access of such advertising partner to our network, may negatively impact our revenue in such period.

Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.

Our quarterly operating results have fluctuated in the past and may fluctuate in the future. Additionally, we have a limited operating history with the current scale of our business, which makes it difficult to forecast our future results and subjects us to a number of uncertainties, including our ability to plan for and anticipate future growth. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly evolving markets, such as the risks and uncertainties

described herein. Our operating results in any given quarter can be influenced by numerous factors, many of which are unpredictable or are outside of our control, including:

- our ability to maintain and grow our player base;
- our ability to retain and increase revenue from existing customers;
- our ability to introduce new features and functionalities and enhance existing features and functionalities;
- our ability to respond to competitive developments, including pricing changes and the introduction of new products and features by our competitors, or the emergence of new competitors;
- seasonal purchasing patterns of our consumers;
- impact of downtime or defects in our game and reputational harm;
- changes to financial accounting standards and the interpretation of those standards that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue;
- general economic and political conditions and government regulations in the countries where we currently operate or plan to expand;
- decisions by us to incur additional expenses, such as increases in sales and marketing or research and development; and
- potential costs to attract, onboard, retain and motivate qualified personnel.

The impact of one or more of the foregoing and other factors may cause our operating results to vary significantly. As such, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance. The variability and unpredictability of our operating results could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations, then the trading price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

We have experienced rapid growth and expect to invest in our growth for the foreseeable future. If we fail to manage our growth effectively, then our business, operating results and financial condition would be adversely affected.

We have experienced rapid growth in recent periods, and we expect to continue to invest broadly across our organization to support our growth. Our total net revenue has grown from $86.3 million for the year ended December 31, 2019 to $106.7 million for the year ended December 31, 2021 after reaching revenue of $124.9 million for the year ended December 31, 2020. Although we have experienced rapid growth historically, we may not sustain our current growth rates, nor can we assure you that our investments to support our growth will be successful. The growth and expansion of our business will require us to invest significant financial and operational resources and the continuous dedication of our management team.

Failure to manage growth effectively could result in difficulty or delays in attracting new players, declines in quality or player satisfaction and demand for our games, increases in costs, difficulties in introducing new products and features or enhancing our offerings, loss of customers or consumers, difficulties in attracting or retaining talent or other operational difficulties, any of which could adversely affect our business, operating results and financial condition. Effectively managing our growth may also be more difficult to accomplish the longer that our employees, our customers and the overall economy is impacted due to the COVID-19 pandemic.

Certain estimates of market opportunity, forecasts of market growth and our operating metrics included in this prospectus may prove to be inaccurate.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts in this prospectus

relating to the size and expected growth of our target market may prove to be inaccurate. Even if the markets in which we compete meet the size estimates and growth forecasted in this prospectus, our business could fail to grow at similar rates, if at all. Certain of these estimates are calculated using internal data and the estimates in this prospectus are subject to a number of assumptions and extrapolations, and as a result, the actual market opportunity and growth forecasts may be different than our disclosed numbers. In addition, our growth is subject to many factors, including our success in executing our business strategy, which is subject to many risks and uncertainties. Accordingly, the estimates and forecasts of market size and growth we have provided in this prospectus should not be taken as indicative of our future growth.

Risks Related to Intellectual Property

If we are unable to protect the intellectual property relating to our material software, the commercial value of our products will be adversely affected, and our competitive position could be harmed.

We are highly reliant upon in-licensed intellectual property and developing proprietary software, where we have obtained the rights to publish and distribute software developed by third parties and related parties. We and our licensors attempt to protect our software and production techniques under patent, copyright, trademark and trade secret laws as well as through contractual restrictions on disclosure, copying and distribution. Nonetheless, our software is susceptible to piracy and unauthorized copying, and third parties may potentially exploit, misappropriate or otherwise violate our intellectual property and proprietary information, causing significant reputational damage. Unauthorized third parties, for example, may be able to copy or to reverse engineer our software to obtain and use programming or production techniques that we regard as proprietary. Well organized piracy operations have also proliferated in recent years, resulting in the ability to download pirated copies of our software over the Internet. Although we attempt to incorporate protective measures into our software, piracy of our products could negatively affect our future profitability. In addition, "cheating" programs or other unauthorized software tools and modifications that enable consumers to cheat in games harm the experience of players who play fairly and could negatively impact the volume of microtransactions or purchases of DLC. Also, vulnerabilities in the design of our applications and of the platforms upon which they run could be discovered after their release. This may lead to lost revenues from paying consumers or increased cost of developing technological measures to respond to these vulnerabilities, either of which could negatively affect our business.

If we infringe, misappropriate, or otherwise violate or are alleged to infringe, misappropriate or otherwise violate the intellectual property rights of third parties, our business could be adversely affected.

As our industry grows, we may be subject to an increasing amount of litigation that is common in the software industry based on allegations of infringement or other alleged violations of patent, copyright, or trademarks. In addition, we believe that interactive entertainment software will increasingly become the subject of claims that such software infringes on the intellectual property rights of others with both the growth of online functionality and advances in technology, game content and software graphics as games become more realistic. From time to time, we may receive notices from third parties or be named in lawsuits by third parties alleging infringement of their proprietary rights. Although we believe that our software and technologies and the software and technologies of third-party developers and publishers with whom we have contractual relations do not and will not infringe or violate proprietary rights of others, it is possible that infringement of proprietary rights of others may occur. Any claims of infringement, with or without merit, could be time consuming, costly and difficult to defend. Moreover, intellectual property litigation or claims could require us to discontinue the distribution of products, obtain a license or redesign our products, which could result in additional substantial costs and material delays.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

We rely on trade secrets and proprietary knowledge to protect our unpatented know-how, expertise, technology and other proprietary information and to maintain our competitive position. We enter into nondisclosure and confidentiality agreements with our employees and independent contractors regarding our trade secrets and proprietary information in order to limit access to, and disclosure and use of, our trade secrets and proprietary information. Nevertheless, we cannot guarantee that we have entered into such

agreements with each party that may have or has had access to our trade secrets or proprietary information. Furthermore, trade secrets are difficult to protect. We cannot assure you that the obligation to maintain the confidentiality of our trade secrets and proprietary information will be honored. Any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. Monitoring unauthorized disclosure is difficult, and we do not know whether the steps we have taken to prevent such disclosure are, or will be, adequate. If we were to enforce a claim that a third party had illegally obtained and was using our trade secrets, it would be expensive and time-consuming, and the outcome would be unpredictable. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our material trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed. In general, any loss of trade secret protection or other unpatented proprietary rights could harm our business, financial condition, results of operations, and prospects.

We may be subject to claims that our employees, consultants or advisors have wrongfully used or disclosed alleged trade secrets of their current or former employers or claims asserting ownership of what we regard as our own intellectual property.

Many of our employees, consultants and advisors are currently or were previously employed at other companies in our field, including our competitors or potential competitors. Many of them executed proprietary rights, non-disclosure and/or non-competition agreements in connection with such previous employment or engagement. Although we try to ensure that our employees, consultants, and advisors do not use the intellectual property rights, proprietary information know-how or trade secrets of others in their work for us, we may be subject to claims that we or they have, inadvertently or otherwise, used, infringed, misappropriated or otherwise violated intellectual property rights, or disclosed the alleged trade secrets or other proprietary information, of any such individual's current or former employer. Litigation may be necessary to defend against these claims. Any litigation or the threat of litigation may adversely affect our ability to hire employees or engage consultants and contractors. A loss of key personnel or their work product could hamper or prevent us from developing and commercializing products and product candidates, which could harm our business. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while it is our policy to require our employees, consultants and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives, develops and/or reduces to practice intellectual property that we regard as our own. The assignment of intellectual property rights may not be self-executing, or the assignment agreements may be breached, and we may be forced to bring claims against third parties, or defend claims that they may bring against us, to determine the ownership of what we regard as our intellectual property. Any of the foregoing could harm our competitive position, business, financial condition, results of operations and prospects.

Accordingly, if we fail in prosecuting or defending any such claims, we may be required to pay monetary damages, and we may also lose valuable intellectual property rights or personnel, which could harm our competitive position and prospects. Such intellectual property rights could be awarded to a third-party, and we could be required to obtain a license from such third-party to commercialize our technology or products, which license may not be available on commercially reasonable terms, or at all, or such license may be non-exclusive. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to our management and employees.

We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time consuming and unsuccessful.

Third parties, including our competitors, could be infringing, misappropriating or otherwise violating our owned and licensed trademarks, trade secrets or other intellectual property rights. Monitoring

unauthorized use of our intellectual property is difficult, time-consuming and costly. The steps we have taken to protect our proprietary rights may not be adequate to enforce our rights against infringement, misappropriation or other violation of our intellectual property. We may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Any inability to meaningfully enforce our intellectual property rights could harm our ability to compete and reduce demand for our games.

In the future, we may make claims of infringement or misappropriation against third parties, or make claims that third-party intellectual property rights are invalid or unenforceable. These claims could:

- cause us to incur greater costs and expenses in the protection of our intellectual property;
- potentially negatively impact our intellectual property rights, for example, by causing one or more of our intellectual property rights to be ruled or rendered unenforceable or invalid; or
- divert our technical personnel's or management's attention and our resources.

In any lawsuit we bring to enforce our intellectual property rights, a court may refuse to stop the other party from using the technology at issue on grounds that our intellectual property rights do not cover the technology in question, are not valid, or otherwise not enforceable against such other party. Further, in such proceedings, the defendant could counterclaim that our intellectual property is invalid or unenforceable and the court may agree, in which case we could lose valuable intellectual property rights. The outcome in any such lawsuit is unpredictable.

Litigation or other legal proceedings relating to intellectual property claims, even if resolved in our favor, may cause us to incur significant expenses and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our Class A common stock or cause reputational harm. We may not have sufficient financial or other resources to conduct such litigation or proceedings adequately. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources and more mature and developed intellectual property portfolios. Uncertainties resulting from the initiation and continuation of intellectual property proceedings could harm our ability to compete in the marketplace. In addition, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information or trade secrets could be compromised by disclosure during this type of litigation. Any of the foregoing could harm our competitive position, business, financial condition, results of operations and prospects. For more information, see "Business — Legal Proceedings."

We or our licensors may not be able to enforce our intellectual property rights throughout the world.

We or our licensors may be required to protect our proprietary technology and content in an increasing number of jurisdictions, a process that is expensive and may not be successful, or which we or our licensors may not pursue in every location due to costs, complexities or other reasons. Filing, prosecuting, maintaining, defending, and enforcing our owned or in-licensed intellectual property rights in all jurisdictions throughout the world would be prohibitively expensive, and our intellectual property rights in some jurisdictions outside the United States may be less extensive than those in the United States. Competitors may use our technologies in jurisdictions where we have not obtained intellectual property protection to develop their own games and, further, may export otherwise infringing, misappropriating, or otherwise violating games to territories where we have intellectual property protection, but enforcement is not as strong as that in the United States. These games may compete with our games, and our intellectual property rights may not be effective or sufficient to prevent such competition. In addition, the laws of some foreign jurisdictions do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in establishing and enforcing their proprietary rights outside of the United States. These challenges can be caused by the absence or inconsistency of the application of rules and methods for the establishment and enforcement of intellectual property rights outside of the United States. In addition, the legal systems of some jurisdictions, particularly developing countries, do not favor the enforcement of intellectual property protection. This could make it difficult for us to stop the infringement, misappropriation or other violation of our intellectual property rights. Accordingly, we or

our licensors may choose not to seek protection in certain jurisdictions, and we will not have the benefit of protection in such jurisdictions. Proceedings to enforce our intellectual property rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, our or our licensors' efforts to protect our intellectual property rights in such jurisdictions may be inadequate. In addition, changes in the law and legal decisions by courts in the United States and foreign jurisdictions may affect our ability to obtain adequate protection for our games and other technologies and the enforcement of intellectual property rights. Any of the foregoing could harm our competitive position, business, financial condition, results of operations and prospects.

If our trademarks and trade names are not adequately protected, we may not be able to build name recognition in our markets of interest and our competitive position may be harmed.

The registered or unregistered trademarks or trade names that we own or license may be challenged, infringed, circumvented, declared generic, lapsed or determined to be infringing on or dilutive of other trademarks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build name recognition. In addition, third parties have filed, and may in the future file, for registration of trademarks similar or identical to our owned or licensed trademarks, thereby impeding our ability to build brand identity and possibly leading to market confusion. If such third parties succeed in registering or developing common law rights in such trademarks, and if we are not successful in challenging such third-party rights, we may not be able to use these trademarks to develop brand recognition of our games. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered owned or licensed trademarks or trade names. If we are unable to establish or protect our trademarks and trade names, or if we are unable to build name recognition based on our owned or licensed trademarks and trade names, we may not be able to compete effectively, which could harm our competitive position, business, financial condition, results of operations and prospects.

We use open source software in connection with certain of our games and services, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in connection with some of the games and services we offer and may continue to use open source software in the future. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software or make available any derivative works of the open source code on unfavorable terms or at no cost. The terms of various open source licenses have not been interpreted by courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our use of the open source software. Were it determined that our use was not in compliance with a particular license, we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our games or products, discontinue distribution in the event re-engineering cannot be accomplished on a timely basis, or take other remedial action that may divert resources away from our game development efforts, any of which could negatively impact our business.

Risks Related to Legal or Regulatory Compliance

Changing data privacy and security laws and regulations in the jurisdictions in which we or our consumers do business could increase the cost of our operations and subject us to possible sanctions, civil lawsuits (including class action or similar representative lawsuits) and other penalties; such laws and regulations are continually evolving. Our platform and service providers' actual or perceived failure to comply with these laws and regulations could harm our business financial condition and results of operations.

We collect, process, store, use and share data in our operations. While our business receives limited, if any, personal information of our end users from our platform providers, we may elect to collect such information in the future. Our business and the business of our platform providers are therefore subject to a number of federal, state, local and foreign laws, regulations, regulatory codes and guidelines governing data privacy, data protection and security, including with respect to the collection, storage, use, processing,

transmission, sharing and protection of personal information. Such laws, regulations, regulatory codes and guidelines may be inconsistent across jurisdictions or conflict with other rules.

The legislative and regulatory landscapes for data privacy and security continue to evolve in jurisdictions worldwide, with an increasing focus on privacy and data protection issues with the potential to affect our business. In the United States, such privacy and data security laws and regulations include federal laws and regulations like the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act ("CANPAM Act"), the Telephone Consumer Protection Act, the Do-Not-Call Implementation Act, and rules and regulations promulgated under the authority of the Federal Trade Commission and state laws like the California Consumer Privacy Act ("CCPA") and the varying data breach notification laws that have been enacted in all 50 U.S. states and the District of Columbia. The CCPA, which became effective on January 1, 2020 and became enforceable by the California Attorney General on July 1, 2020, along with related regulations that came into force on August 14, 2020, provides additional individual privacy rights for California residents and places increased data privacy and security obligations on entities handling certain personal information of California residents and households. Among other things, the CCPA expands rights related to such individuals personal information, including the right to access and require deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is collected, used, and shared by covered business. Many of the CCPA's requirements as applied to personal information obtained in a business to business context, as well as personal information of a business's personnel and related individuals, are subject to a moratorium set to expire on January 1, 2023. The CCPA provides for civil penalties for violations, as well as a private right of action and statutory damages for security breaches that may increase security breach litigation. The effects of the CCPA are significant and have required, and could continue to require, us to modify our data collection or processing practices and policies and to incur substantial costs and expenses in an effort to comply. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent state privacy legislation in the U.S., which could increase our potential liability and adversely affect our business. Further, in November 2020, California voters passed the California Privacy Rights Act ("CPRA"). The CPRA, which will become effective in most material respects starting on January 1, 2023 with a one-year look back period, significantly amends and expands existing CCPA requirements, including, among other things, by introducing additional obligations such as data minimization and storage limitations on the sharing of personal information for cross on text behavioral advertising and on the use of "sensitive" personal information, granting additional rights to consumers, such as correction of personal information and additional opt-out rights, and creating a new entity, the California Privacy Protection Agency, to implement and enforce the law and impose administrative fines. Further, there currently are a number of additional proposals related to data privacy or security pending before federal, state, and foreign legislative and regulatory bodies, including in a number of U.S. states considering consumer protection laws similar to the CCPA. For example, in March 2021, Virginia enacted the Virginia Consumer Data Protection Act, and in June 2021, Colorado passed the Colorado Privacy Act, both of which are comprehensive privacy statutes that share similarities with the CCPA and CPRA and will become effective on January 1, 2023 and July 1, 2023, respectively. Such legislation may add complexity, variation in requirements, restrictions and potential legal risk, require additional investment in resources to compliance programs, and could impact strategies and availability of previously useful data and could result in increased compliance costs and/or changes in business practices and policies.

Many of the other jurisdictions where we or our customers do business, including the EU, also have restrictive laws and regulations dealing with the processing of personal information. In addition to regulating the processing of personal information within the relevant jurisdictions, these legal requirements often also apply to the processing of personal information outside these jurisdictions, where there is some specified link to the relevant jurisdiction. For example, the European Union's Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the "General Data Protection Regulation" or "GDPR") became effective in May 2018, imposes strict requirements on controllers and processors of personal data in the European Economic Area ("EEA"), including, for example, higher standards for obtaining consent from individuals to process their personal data, more robust disclosures to individuals and a strengthened individual data rights regime, greater control for data subjects (including the "right to be forgotten" and data portability) and shortened timelines for data breach notifications. The GDPR created new compliance obligations applicable to our business and our platform

and service providers, which could require us to self-determine how to interpret and implement these obligations, change our business practices and expose us to lawsuits (including class action or similar representative lawsuits) by consumers or consumer organizations for alleged breach of data protection laws. Failure to comply with the requirements of GDPR may result in significant fines of up to €20,000,000 or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, and other administrative penalties. The United Kingdom operates a separate but similar regime to the European Union with which we will have to comply and that allows for fines of up to the greater of £17.5 million or 4% of the total worldwide annual turn over of the preceding financial year. Further, beginning January 1, 2021, we have been required to comply with the GDPR and also the United Kingdom GDPR ("UK GDPR"), which, together with the amended United Kingdom Data Protection Act 2018, retains the GDPR in United Kingdom national law. The relationship between the United Kingdom and the European Union in relation to certain aspects of data protection law remains unclear, and it is unclear how the United Kingdom's data protection laws and regulations will develop in the medium to longer term, and how data transfers to and from the United Kingdom will be regulated in the long term. For example, while the EU Commission has adopted an adequacy decision in favor of the United Kingdom, enabling data transfers from European Union member states to the United Kingdom without additional safeguards, the decision will automatically expire in June 2025 unless the EU Commission re-assesses and renews/extends it. These changes may lead to additional costs and increase our overall risk exposure.

Recent legal developments also have created compliance uncertainty regarding the transfer of personal information from the U.K. and EEA to certain locations outside of the U.K. and EEA where we or our clients operate or conduct business. In July 2020, the Court of Justice of the European Union ("CJEU") ruled the EU-US Privacy Shield Framework, one of the primary safeguards that allowed U.S. companies to import personal data from the EU to the U.S., was invalid. The CJEU's decision also raised questions about whether the most commonly used mechanism for cross-border transfers of personal data out of the EEA, namely, the European Commission's Standard Contractual Clauses, can lawfully be used for personal data transfers from the EU to the U.S. or other third countries the European Commission has determined do not provide adequate data protections under their laws. On June 4, 2021, the European Commission published new Standard Contractual Clauses (which became effective on June 27, 2021), which impose on companies additional obligations relating to data transfers, including in the transfer, to implement additional security measures and update internal privacy practices. If we elect to rely on the new Standard Contractual Clauses for applicable data transfers, we may be required to incur significant time and resources to update our contractual arrangements and to comply with new obligations. If we are unable to implement a valid mechanism for personal data transfers from the EEA, we could face increased exposure to regulatory actions, substantial fines and injunctions against processing personal data from the EEA. As discussed above, these same considerations must currently be taken into account with regard to the UK GDPR as well. Additionally, other countries outside of the EU have enacted or are considering enacting similar cross order data transfer restrictions and laws requiring local data residency, which could increase the cost and complexity of delivering our services and operating our business. The type of challenges we face in the EU and U.K. will likely also arise in other jurisdictions that adopt regulatory frameworks of equivalent complexity. Accordingly, any actual or perceived failure to comply with these laws and regulations could harm our business, financial condition and results of operations.

Our business and products are subject to potential legislation and other governmental restrictions. The adoption of such proposed legislation and restrictions could limit the retail market for our products.

Several proposals have been made for federal legislation to regulate our industry. Such proposals seek to prohibit the sale of products containing certain content included in some of our games. If any such proposals are enacted into law, it may limit the potential market for some of our games in the United States, and adversely affect our business, financial condition and operating results. Other countries have adopted laws regulating content both in packaged games and those transmitted over the Internet that are stricter than current U.S. law. While no such laws are currently in place in the United States, the adoption into law of such legislation in jurisdictions in which we do significant business could severely limit the retail market for some of our games.

On August 30, 2021, China's National Press and Publication Administration announced a new regulation that required online gaming companies limit their services provided to minors to one hour per

day on Fridays, Saturdays, Sundays and public holidays. We continue to assess the impact this new regulation may have on our results of operations however, at this time, the impact of this new regulation remains uncertain.

Change in government regulations relating to the Internet could have a negative impact on our business.

We rely on our consumers' access to significant levels of Internet bandwidth for the sale and digital delivery of our content and the functionality of our games with online features. Changes in laws or regulations that adversely affect the growth, popularity, or use of the Internet, including laws affecting "net neutrality" or measures enacted in certain jurisdictions as a result of the COVID-19 pandemic, could decrease the demand for our products and services or increase our cost of doing business.

Although certain jurisdictions have implemented laws and regulations intended to prevent Internet service providers from discriminating against particular types of legal traffic on their networks, other jurisdictions may lack such laws and regulations or repeal existing laws or regulations. For example, on December 14, 2017, the Federal Communications Commission voted to repeal net neutrality regulations in the United States, and, following that decision, several states enacted net neutrality regulations. Given the uncertainty around these rules, including changing interpretations, amendments or repeal, coupled with the potentially significant political and economic power of local Internet service providers and the relatively significant level of Internet bandwidth access our products and services require, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expenses, or otherwise negatively affect our business.

We may be involved in legal proceedings that have a negative impact on our business.

From time to time, we have been, and in the future may be, involved in claims, suits, investigations, audits and proceedings arising in the ordinary course of our business, including with respect to labor and employment, intellectual property, competition and antitrust, regulatory, tax, privacy and/or commercial matters. In addition, negative consumer sentiment about our business practices may result in inquiries or investigations from regulatory agencies and consumer groups, as well as litigation.

Claims, suits, investigations, audits and proceedings are inherently difficult to predict, and their results are subject to significant uncertainties, many of which are outside of our control. Regardless of the outcome, such legal proceedings can have a negative impact on us due to reputational harm, legal costs, diversion of management resources and other factors. It is also possible that a resolution of one or more such proceedings could result in substantial settlements, judgments, fines or penalties, injunctions, criminal sanctions, consent decrees or orders preventing us from offering certain features, functionalities, products or services, requiring us to change our development process or other business practices.

There is also inherent uncertainty in determining reserves for these matters. Significant judgment is required in the analysis of these matters, including assessing the probability of potential outcomes and determining whether a potential exposure can be reasonably estimated. In making these determinations, we, in consultation with outside counsel, examine the relevant facts and circumstances on a quarterly basis assuming, as applicable, a combination of settlement and litigated outcomes and strategies. Further, it may take time to develop factors on which reasonable judgments and estimates can be based.

We regard our software as proprietary and rely on a variety of methods, including a combination of copyright, patent, trademark and trade secret laws, and employee and third-party non-disclosure and invention assignment agreements, to protect our proprietary rights. We own or license various copyrights, patents, trademarks and trade secrets. The process of registering and protecting these rights in various jurisdictions is expensive and time-consuming. Further, we are aware that some unauthorized copying and piracy occurs, and if a significantly greater amount of unauthorized copying or piracy of our software products were to occur, it could negatively impact our business. We also cannot be certain that existing intellectual property laws will provide adequate protection for our products in connection with emerging technologies or that we will be able to effectively protect our intellectual property through litigation and other means.

Financial and Economic Risks

If general economic conditions decline, demand for our games could decline. In addition, our business is vulnerable to changing economic conditions and to other factors that adversely affect the gaming industry, which could negatively impact our business.

In-game purchases involve discretionary spending on the part of consumers. Consumers are generally more willing to make discretionary purchases, including purchases of games and services like ours, during periods in which favorable economic conditions prevail. As a result, our games may be sensitive to general economic conditions and economic cycles. A reduction or shift in domestic or international consumer spending could result in an increase in our marketing and promotional expenses, in an effort to offset that reduction, and could negatively impact our business. Discretionary spending on entertainment activities could further decline for reasons beyond our control, such as natural disasters, acts of war, pandemics, terrorism, transportation disruptions or the results of adverse weather conditions. Additionally, disposable income available for discretionary spending may be reduced by unemployment, higher housing, energy, interest or other costs, or where the actual or perceived wealth of customers has decreased because of circumstances such as lower residential real estate values, increased foreclosure rates, inflation, increased tax rates or other economic disruptions. Any prolonged or significant decrease in consumer spending on entertainment activities could result in reduced play levels in decreased spending on our games, and could adversely impact our results of operations, cash flows and financial condition.

Changes in tax laws or tax rulings, or the examination of our tax positions, could materially affect our financial condition and results of operations.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. However, the tax benefits that we intend to eventually take advantage of could be undermined due to changing tax laws, both in the United States and in other applicable jurisdictions. In addition, the taxing authorities in the United States and other jurisdictions where we do business regularly examine income and other tax returns and we expect that they may examine our income and other tax returns. The ultimate outcome of these examinations cannot be predicted with certainty.

Tax law or tax rate changes could affect our effective tax rate and future profitability.

Our effective tax rate was 18.4% for 2021 compared with 18.6% for 2020 and 14.1% for 2019. In general, changes in applicable U.S. federal and state and foreign tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our tax expense. In addition, and in response to significant market volatility and disruptions to business operations resulting from the global spread of COVID-19, taxing authorities in many jurisdictions in which we operate may propose changes to their tax laws and regulations. These potential changes could have a material impact on our effective tax rate, long-term tax planning and financial results.

Our reported financial results could be significantly impacted by changes in financial accounting standards or by the application of existing or future accounting standards to our business as it evolves.

Our reported financial results are impacted by the accounting policies promulgated by the SEC and national accounting standards bodies and the methods, estimates and judgments that we use in applying our accounting policies. Policies affecting revenue recognition have affected, and could further significantly affect, the way we report revenues related to our products and services. We recognize a majority of the revenues from video games that include an online service on a deferred basis over an estimated service period for such games. In addition, we defer the cost of revenues of those products. Further, as we increase our DLC and add new features to our online services, our estimate of the service period may change, and we could be required to recognize revenues, and defer related costs, over a shorter or longer period of time. As we enhance, expand and diversify our business and product offerings, the application of existing or future financial accounting standards, particularly those relating to the way we account for revenues and income

taxes, could have a significant impact on our reported net revenues, net income and earnings per share under generally accepted accounting principles in the United States in any given period.

Risks Related to Our Corporate Structure

We will be a "controlled company" under the corporate governance rules of Nasdaq and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements. If we rely on the exemptions available to a "controlled company" you will not have the same protections afforded to stockholders of companies that are subject to such corporate governance requirements.

Upon completion of this offering, our controlling stockholder, Founder and Chairman, Mr. Shi, will control a majority of our outstanding common stock. As a result, we will be a "controlled company" within the meaning of the corporate governance standards of the Nasdaq rules. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

- requirement that a majority of its board of directors consist of independent directors;
- the requirement that its director nominations be made, or recommended to the full board of directors, by its independent directors or by a nominations committee that is comprised entirely of independent directors and that it adopts a written charter or board resolution addressing the nominations process; and
- the requirement that it has a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

We may elect to rely on these exemptions upon becoming a public company. As a result, our board of directors may not have a majority of independent directors, our compensation committee may not consist entirely of independent directors and/or our directors may not be nominated or selected by independent directors. Accordingly, if we elect to rely on these exemptions, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the Nasdaq rules.

Mr. Shi, our Founder and Chairman, controls us, and his ownership of our common stock will prevent you and other stockholders from influencing significant decisions.

Upon completion of this offering, Mr. Shi will continue to control shares representing a majority of our combined voting power. As long as Mr. Shi continues to control shares representing a majority of our voting power, he will generally be able to determine the outcome of all corporate actions requiring stockholder approval, including the election and removal of directors (unless supermajority approval of such matter is required by applicable law and our amended and restated certificate of incorporation). In the ordinary course of his business activities, Mr. Shi may engage in activities where his interests may not be the same as, or may conflict with, the interests of our other stockholders. Even if Mr. Shi were to control less than a majority of our voting power, he may be able to influence the outcome of corporate actions so long as he controls a significant portion of our voting power.

Our stockholders are not able to affect the outcome of any stockholder vote while Mr. Shi controls the majority of our voting power (or, in the case of removal of directors, two-thirds of our voting power). Due to his ownership and rights under our amended and restated certificate of incorporation and our amended and restated bylaws that will become effective upon the closing of this offering, Mr. Shi controls, subject to applicable law, the composition of our board of directors, which in turn controls all matters affecting us, including, among other things:

- any determination with respect to our business direction and policies, including the appointment and removal of officers and, in the event of a vacancy on our board of directors, additional or replacement directors;
- any determinations with respect to mergers, business combinations or dispositions of assets;

- determination of our management policies;
- determination of the composition of the committees on our board of directors;
- our financing policy;
- our compensation and benefit programs and other human resources policy decisions;
- changes to any other agreements that may adversely affect us;
- the payment of dividends on our common stock; and
- determinations with respect to our tax returns.

In addition, the concentration of Mr. Shi's ownership could also discourage others from making tender offers, which could prevent holders from receiving a premium for their common stock. Because Mr. Shi's interests may differ from ours or from those of our other stockholders, actions that he takes with respect to us, as our controlling stockholder, may not be favorable to us or to you or our other stockholders.

Mr. Shi, our Founder and Chairman, is a Chinese national. For so long as a Chinese individual continues to exercise majority voting control over us, changes in U.S. and Chinese laws in the future may make it more difficult for us to operate as a publicly traded company in the United States.

Future developments in U.S. and Chinese laws may restrict our ability or willingness to operate as a publicly traded company in the United States for so long as Mr. Shi, who is a Chinese national, or other Chinese investors, continue to beneficially own a significant percentage of our outstanding shares of common stock. The relations between the United States and China are constantly changing. During his administration, President Donald J. Trump issued a memorandum directing the President's Working Group on Financial Markets to convene to discuss the risks faced by U.S. investors in Chinese companies and issued several executive orders restricting the operations of Chinese companies, such as the company that owns TikTok, in the United States. Additionally, the federal government has recently proposed legislation intended to protect American investments in Chinese companies. President Joseph R. Biden has not put forth specific policy proposals regarding China and it is unclear at this time which of President Trump's policies, if any, President Biden will continue to implement. In addition, various equity-based research organizations have published reports on Chinese companies after examining their corporate governance practices, related party transactions, sales practices and financial statements, and these reports have led to special investigations and listing suspensions on U.S. national exchanges. While we are not a Chinese company, any similar scrutiny of us, regardless of its merit, could have an adverse effect upon our business, including our results of operations, financial condition, cash flows and prospects. Additionally, should we be the subject of or indirectly covered by new legislation or executive orders addressed at protecting American investments in Chinese or Chinese-owned companies, our revenues and profitability would be materially reduced, and our business and results of operations would be seriously harmed.

The Committee on Foreign Investment in the United States may modify, delay or prevent our future acquisition or investment activities.

For so long as Mr. Shi retains a material ownership interest in us, we will be deemed a "foreign person" under the regulations relating to the Committee on Foreign Investment in the United States ("CFIUS'). As such, acquisitions of or investments in U.S. businesses or foreign businesses with U.S. subsidiaries that we may wish to pursue may be subject to CFIUS review, the scope of which was expanded by the Foreign Investment Risk Review Modernization Act of 2018 ("FIRRMA") to include certain non-passive, non-controlling investments (including certain investments in entities that hold or process personal information about U.S. nationals), certain acquisitions of real estate even with no underlying U.S. business, transactions designed or intended to evade or circumvent CFIUS jurisdiction and any transaction resulting in a "change in the rights" of a foreign person in a U.S. business if that change could result in either control of the business or a covered non-controlling investment. FIRRMA also subjects certain categories of investments to mandatory filings. If a particular proposed acquisition or investment in a U.S. business falls within CFIUS's jurisdiction, we may determine that we are required to make a mandatory filing or that we will submit to CFIUS review on a voluntary basis, or to proceed with the transaction without submitting to CFIUS and risk CFIUS intervention, before or after closing the transaction. CFIUS may decide to block or delay an

acquisition or investment by us, impose conditions with respect to such acquisition or investment or order us to divest all or a portion of a U.S. business that we acquired without first obtaining CFIUS approval, which may limit the attractiveness of or prevent us from pursuing certain acquisitions or investments that we believe would otherwise be beneficial to us and our stockholders. Our inability to complete acquisitions and integrate those businesses successfully could limit our growth or disrupt our plans and operations. In addition, among other things, FIRRMA authorizes CFIUS to prescribe regulations defining "foreign person" differently in different contexts, which could result in less favorable treatment for investments and acquisitions by companies from countries of "special concern." If CFIUS were to promulgate regulations imposing additional burdens on acquisition and investment activities involving China or Chinese investor-controlled entities, our ability to consummate transactions falling within CFIUS's jurisdiction that might otherwise be beneficial to us and our stockholders would be hindered.

Hua Yuan International Limited, a minority stockholder, is indirectly controlled by China-Singapore Suzhou Industrial Park Ventures Co., Ltd., a Chinese state-owned entity, which could subject us to risks involving U.S. - China relations and related risks

Hua Yuan International Limited, which beneficially owns % of our common stock immediately prior to the sale of Class A common stock in this offering (or % following the sale of Class A common stock in this offering), is indirectly controlled by China-Singapore Suzhou Industrial Park Ventures Co., Ltd., a Chinese state-owned entity. Recent political and economic tensions between the United China have negatively impacted certain public companies with stockholders that are Chinese state-owned entities. For example, in May 2021, three telecommunications companies with controlling stockholders that are Chinese state-owned entities — China Mobile Limited, China Unicom and China Telecom Corp., Ltd. — announced they would be delisted by the New York Stock Exchange pursuant to U.S. investment restrictions enacted in 2020. In addition, the Holding Foreign Companies Accountable Act, enacted in December 2020, requires SEC registrants to disclose whether an issuer is owned or controlled by a governmental entity in a foreign jurisdiction that does not allow inspection by the Public Group Accounting Oversight Board, principally including issuers based in China.

Although Hua Yuan International Limited does not own a controlling interest in us, its investment may subject us to risks related to having an indirect principal stockholder that is a Chinese state-owned entity as well as risks arising from political and economic tensions between the United States and China generally.

General Risk Factors

We are subject to risks related to corporate and social responsibility and reputation.

Many factors influence our reputation including the perception held by our customers, business partners and other key stakeholders. Our business faces increasing scrutiny related to environmental, social and governance activities. We risk damage to our reputation if we fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, supply chain management, climate change, workplace conduct, human rights and philanthropy. Any harm to our reputation could impact employee engagement and retention and the willingness of customers and our partners to do business with us, which could have a material adverse effect on our business, results of operations and cash flows.

Our common stock has never been publicly traded, and, as such, the price of our Class A common stock may fluctuate substantially.

Before this initial public offering, there was no public market for our common stock. The initial public offering price for our Class A common stock will be determined through negotiations between the underwriters and us and may vary substantially from the market price of our Class A common stock following this offering. An active public trading market may not develop after completion of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other products, technologies or businesses using our shares as consideration. Furthermore, if our Class A common stock is

approved for listing on Nasdaq, there can be no guarantee that we will continue to satisfy the continued listing standards of Nasdaq. If we fail to satisfy the continued listing standards, we could be de-listed, which would have a negative effect on the price of our Class A common stock and impair your ability to sell your shares.

Following this offering, the market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control or are related in complex ways, including:

- changes in analysts' estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' estimates;
- quarterly variations in our or our competitors' results of operations;
- periodic fluctuations in our revenues, which could be due in part to the way in which we recognize revenues;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- future sales of our Class A common stock or other securities, by us or our stockholders, as well as the anticipation of lock-up releases or lock-up waivers;
- the trading volume of our Class A common stock;
- general market conditions and other factors unrelated to our operating performance or the operating performance of our competitors;
- changes in operating performance and stock market valuations of other technology and entertainment companies generally, or those in the games industry in particular;
- actual or anticipated changes in regulatory oversight of our industry;
- the loss of key personnel, including changes in our board of directors and management;
- programming errors or other problems associated with our products;
- legislation or regulation of our market;
- lawsuits threatened or filed against us, including litigation by current or former employees alleging wrongful termination, sexual harassment, whistleblower or other claims;
- the announcement of new games, products or product enhancements by us or our competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- announcements related to patents issued to us or our competitors and related litigation; and
- developments in our industry.

In recent years, the stock markets generally have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of listed companies. Broad market and industry factors may significantly affect the market price of our Class A common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our Class A common stock shortly following this offering. If the market price of shares of our Class A common stock after this offering does not ever exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment.

In addition, in the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and harm our business, results of operations, financial condition and reputation. These factors may materially and adversely affect the market price of our Class A common stock.

We cannot predict the impact our dual class structure may have on the market price of our Class A common stock.

We cannot predict whether our dual class structure will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Under these policies, our dual class capital structure would make us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track those indices will not be investing in our stock. Because of our dual class structure, we will likely be excluded from certain of these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

Securities analysts may not publish favorable research or reports about our business or may publish no information at all, which could cause our stock price or trading volume to decline.

Our stock price and trading volume may be heavily influenced by the way analysts and investors interpret our financial information and other disclosures. If securities or industry analysts do not publish research or reports about our business, delay publishing reports about our business, or publish negative reports about our business, regardless of accuracy, our Class A common stock price and trading volume could decline.

If a trading market for our Class A common stock develops, the trading market will be influenced to some extent by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. As a newly public company, we may be slow to attract research coverage and the analysts who publish information about our Class A common stock will have had relatively little experience with us or our industry, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. If any of the analysts who cover us provide inaccurate or unfavorable research or issue an adverse opinion regarding our stock price, our stock price could decline. If one or more of these analysts cease coverage of us or fail to publish reports covering us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

Even if our Class A common stock is actively covered by analysts, we do not have any control over the analysts or the measures that analysts or investors may rely upon to forecast our future results. Over-reliance by analysts or investors on any particular metric to forecast our future results may lead to forecasts that differ significantly from our own.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenues and expenses that are not readily apparent from other sources. If our assumptions change or if actual circumstances differ from our assumptions, our results of operations may be adversely affected and could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

If you purchase our Class A common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

Investors purchasing our Class A common stock in this offering will pay a price per share that substantially exceeds the pro forma as adjusted net tangible book value per share. As a result, investors purchasing our Class A common stock in this offering will incur immediate dilution of $ per share, based on the initial public offering price of $ per share, and our pro forma as adjusted net tangible book value per share as of June 30, 2022 (after giving effect to the Transactions). For more information on the dilution you may suffer as a result of investing in this offering, see the section of this prospectus entitled "Dilution."

This dilution is due to the substantially lower price paid by our investors who purchased shares prior to this offering as compared to the price offered to the public in this offering.

A significant portion of our total outstanding shares are restricted from immediate resale but may be sold into the market in the future. This could cause the market price of our Class A common stock to decline, even if our business is doing well.

Sales of a substantial number of shares of our Class A common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell their shares, could result in a decrease in the market price of our Class A common stock. Immediately after this offering, we will have shares of common stock outstanding based on the number of shares outstanding as of , 2022. This includes the shares that we are selling in this offering, which may be resold in the public market immediately without restriction, unless purchased by our affiliates. Of the remaining shares, shares are currently restricted as a result of securities laws or lock-up agreements, which may be waived, with or without notice, by but will be able to be sold after this offering as described in the section of this prospectus entitled "Shares Eligible for Future Sale." We also intend to register all shares of common stock that we may issue under our equity compensation plans. Once we register these shares, they can be freely sold in the public market, subject to volume limitations applicable to affiliates and the lock-up agreements described in the section of this prospectus entitled "Underwriting."

We may allocate the net proceeds from this offering in ways that you and other stockholders may not approve.

Our management will have broad discretion in the application of the net proceeds from this offering, including for any of the purposes described in the section titled "Use of Proceeds." Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. Our management might not apply our net proceeds in ways that ultimately increase the value of your investment, and the failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government. These investments may not yield a favorable return to our stockholders. If we do not invest or apply the net proceeds from this offering in ways that enhance stockholder value, we may fail to achieve expected results, which could cause our stock price to decline.

Provisions in our amended and restated certificate of incorporation and bylaws and under Delaware law could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws that will become effective upon the closing of this offering may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Class A common stock, thereby depressing the market price of our Class A common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board

of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and may be restricted by our credit facilities or any future debt or preferred securities or future debt agreements we may enter into. As a result, capital appreciation, if any, of our Class A common stock will be your sole source of gain for the foreseeable future. See "Dividend Policy."

If we default on our credit obligations, our operations may be interrupted, and our business could be seriously harmed.

We have a credit facility that we may draw on to finance our operations and other corporate purposes. If we default on these credit obligations, our lenders may accelerate the debt and/or foreclose on property securing the debt.

If any of these events occur, our operations may be interrupted and our ability to fund our operations or obligations, as well as our business, could be seriously harmed. In addition, our credit facility contains operating covenants, including maintenance of certain financial ratios. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants have in the past, and could in the future, result in a default under the credit facility and any future financial agreements into which we may enter. If not waived, defaults could cause our outstanding indebtedness under our credit facility and any future financing agreements that we may enter into to become immediately due and payable. For more information on our credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Becoming a public company will increase our compliance costs significantly and require the expansion and enhancement of a variety of financial and management control systems and infrastructure and the hiring of significant additional qualified personnel.

Prior to this offering, we have not been subject to the reporting requirements of the Exchange Act of 1934, as amended (the "Exchange Act"), or the other rules and regulations of the SEC, or any securities exchange relating to public companies. We are working with our legal, independent accounting and financial advisors to identify those areas in which changes should be made to our financial and management control systems to manage our growth and our obligations as a public company. These areas include financial planning and analysis, tax, corporate governance, accounting policies and procedures, internal controls, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, significant changes in these and other areas. However, the expenses that will be required in order to adequately prepare for being a public company could be material. Compliance with the various reporting and other requirements applicable to public companies will also require considerable time and attention of management and will also require us to successfully hire and integrate a significant number of additional qualified personnel into our existing finance, legal, human resources and operations departments.

If we fail to maintain effective internal control over financial reporting, as well as required disclosure controls and procedures, our ability to produce timely and accurate consolidated financial statements or comply with applicable regulations could be impaired.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to develop and refine our internal control over financial reporting. Some members

of our management team have limited or no experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies, and we have limited accounting and financial reporting personnel and other resources with which to address our internal controls and related procedures. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. In addition, changes in accounting principles or interpretations could also challenge our internal controls and require that we establish new business processes, systems and controls to accommodate such changes. We have limited experience with implementing the systems and controls that will be necessary to operate as a public company, as well as adopting changes in accounting principles or interpretations mandated by the relevant regulatory bodies. Additionally, if these new systems, controls or standards and the associated process changes do not give rise to the benefits that we expect or do not operate as intended, it could adversely affect our financial reporting systems and processes, our ability to produce timely and accurate financial reports or the effectiveness of our internal control over financial reporting. Moreover, our business may be harmed if we experience problems with any new systems and controls that result in delays in their implementation or increased costs to correct any post-implementation issues that may arise.

Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. For example, in 2020 and 2019, our auditors identified a material weakness involving lack of sufficient financial reporting close controls and review of account reconciliations and income tax accounts. Our auditors identified several audit adjustments during the course of our 2020 and 2019 audits, the aggregate value of which are considered material to the consolidated financial statements. We have subsequently remediated this material weakness. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures or internal control over financial reporting could also cause investors to lose confidence in the accuracy and completeness of our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq. As a private company, we are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we will be required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second Annual Report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until the later of (1) our second Annual Report on Form 10-K or (2) the Annual Report on Form 10-K for the first year we no longer qualify as an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business and could cause a decline in the trading price of our Class A common stock. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources. These events could have a material and adverse effect on our business, results of operations, financial condition and prospects.

Our amended and restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the U.S. District Court for the District of Delaware) will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' abilities to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation that will become effective upon the closing of this offering will specify that, unless we consent in writing to the selection of an alternative forum, to the

fullest extent permitted by law, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving actions brought against us by stockholders; provided that, the exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the U.S. federal courts have exclusive jurisdiction; and provided further that, if and only if the Court of Chancery of the State of Delaware dismisses any such action for lack of subject matter jurisdiction, such action may be brought in another state or federal court sitting in the State of Delaware. Our amended and restated certificate of incorporation will also provide that the federal district courts of the United States of America will be the exclusive forum for the resolution of any complaint asserting a cause of action against us or any of our directors, officers, employees or agents and arising under the Securities Act of 1933, as amended, or the Securities Act. We believe these provisions may benefit us by providing increased consistency in the application of Delaware law and federal securities laws by chancellors and judges, as applicable, particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, these provisions may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

We are an "emerging growth company," and the reduced disclosure requirements applicable to emerging growth companies may make our Class A common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. We could continue to be considered an emerging growth company for up to five years, although we would lose that status sooner if our annual gross revenues exceed $1.07 billion, if we issue more than $1.0 billion in nonconvertible debt in a three-year period or if the fair value of our Class A common stock held by non-affiliates exceeds $700.0 million (and we have been a public company for at least 12 months and have filed at least one Annual Report on Form 10-K). For the fiscal year ended December 31, 2021, our total net revenue was $106.7 million.

For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. It is unclear whether investors will find our Class A common stock less attractive because we may rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and the trading price of our Class A common stock may be more volatile.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains statements that constitute forward-looking statements. Many of the forward-looking statements contained in this prospectus can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “may,” “predict,” “continue,” “estimate” and “potential,” or the negative of these terms or other similar expressions.

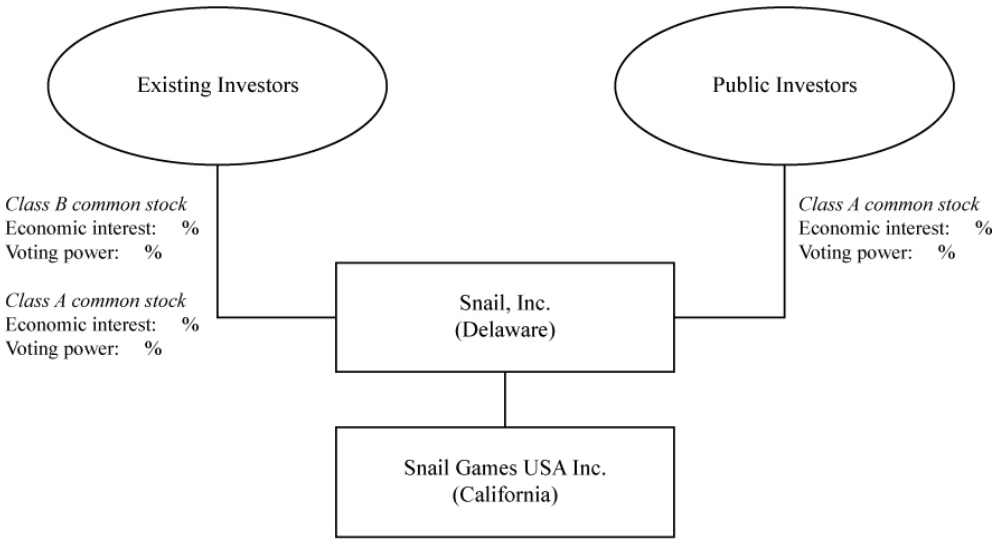
Forward-looking statements appear in a number of places in this prospectus and include, but are not limited to, statements regarding our intent, belief or current expectations. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to various factors, including, but not limited to, those identified under the section entitled “Risk Factors” in this prospectus. The statements we make regarding the following matters are forward-looking by their nature:

- our growth prospects and strategies;
- launching new games and additional functionality to games that are commercially successful;
- our expectations regarding significant drivers of our future growth;
- our ability to retain and increase our player base and develop new video games and enhance our existing games;
- competition from companies in a number of industries, including other casual game developers and publishers and both large and small, public and private Internet companies;
- our ability to attract and retain a qualified management team and other team members while controlling our labor costs;
- our relationships with third-party platforms such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore;
- the size of our addressable markets, market share and market trends;
- our ability to successfully enter new markets and manage our international expansion;
- protecting and developing our brand and intellectual property portfolio;
- costs associated with defending intellectual property infringement and other claims;
- our future business development, results of operations and financial condition;
- the effects of the COVID-19 pandemic and the ongoing conflict involving Russia and Ukraine on our business and the global economy generally;
- descriptions of tax laws;
- rulings by courts or other governmental authorities;
- our plans to pursue and successfully integrate strategic acquisitions;
- the use of proceeds from this offering;
- other risks and uncertainties described in this prospectus, including those described in “Risk Factors”; and
- assumptions underlying any of the foregoing.

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

OUR ORGANIZATIONAL STRUCTURE

Snail, a Delaware corporation, was formed on January 11, 2022 and is the issuer of the Class A common stock offered by this prospectus. In connection with this offering, the stockholders of Snail Games USA will contribute their interests to Snail in exchange for a proportional amount of, in the case of all stockholders other than Mr. Shi and Ying Zhou, Class A common stock of Snail and, in the case of Mr. Shi and Ms. Zhou, Class B common stock of Snail. Thereafter, Snail will be the sole stockholder of Snail Games USA, and all of our business operations will continue to be conducted through Snail Games USA and its direct and indirect subsidiaries. We refer to the aforementioned transactions as the "Transactions." The chart below depicts our organizational structure after the consummation of the Transactions and the sale of shares of Class A common stock in this offering, assuming no exercise of the underwriters' option to purchase additional shares of Class A common stock from us.



USE OF PROCEEDS

We estimate that the net proceeds from our issuance and sale of shares of Class A common stock in this offering will be approximately $ (or $ million if the underwriters exercise in full their option to purchase additional shares), assuming an initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Each $1.00 increase (decrease) in the assumed initial public offering price of $ per share of Class A common stock would increase (decrease) the net proceeds to us from this offering by approximately $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Each increase (decrease) of 1.0 million in the number of shares of Class A common stock we are offering would increase (decrease) the net proceeds to us from this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, by approximately $ million, assuming the assumed initial public offering price stays the same.

We intend to use the net proceeds from this offering for general corporate purposes, which may include funding future products or technologies, maintaining liquidity and funding our working capital solutions offering. We may also use a portion of the net proceeds to acquire, in-license or make investments in businesses, products, offerings, and technologies, although we do not have agreements or commitments for any material acquisitions or investments at this time. We will have broad discretion in allocating the net proceeds from this offering.

Although we currently anticipate that we will use the net proceeds from this offering as described above, there may be circumstances where a reallocation of funds is necessary. The amounts and timing of our actual expenditures will depend upon numerous factors, including the factors described under “Risk Factors” in this prospectus. Accordingly, our management will have flexibility in applying the net proceeds from this offering. An investor will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

DIVIDEND POLICY

We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. Except for a one-time special dividend in connection with our distribution of the Shi Loan (as defined herein), we have not paid any cash dividends. See "Certain Relationships and Related Party Transactions." Any future determination related to our dividend policy will be made at the discretion of our board of directors after considering our financial condition, results of operations, capital requirements, business prospects and other factors our board of directors deems relevant, and subject to the restrictions contained in any future financing instruments. In addition, our ability to pay cash dividends is currently restricted by the terms of our credit facilities. Our ability to pay cash dividends on our capital stock in the future may also be limited by the terms of any preferred securities we may issue or agreements governing any additional indebtedness we may incur.

CAPITALIZATION

The table below sets forth our total capitalization (defined as long-term debt and stockholders' equity) as of June 30, 2022, as follows:

- on an actual basis; and
- as adjusted to give effect to (i) the Transactions and (ii) our sale of shares of Class A common stock in the offering.

You should read this table together with the sections of this prospectus entitled "Summary Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.

	As of June 30, 2022	
	Actual	As Adjusted
	(in thousands except share data and per share data)	
Cash and cash equivalents:	$14,697	$
Total liabilities	74,898	
Stockholders' equity:		
Preferred stock, $0.0001 par value per share; no shares authorized or issued and outstanding, actual; shares authorized, no shares issued and outstanding, as adjusted	—	
Common stock, $0.01 par value per share; 1,000,000 shares authorized, 500,000 shares issued and outstanding, actual; no shares authorized or issued and outstanding, as adjusted	5	
Class A common stock, $0.0001 par value per share; no shares authorized or issued and outstanding, actual; shares authorized, shares issued and outstanding, as adjusted	—	
Class B common stock, $0.0001 par value per share; no shares authorized or issued and outstanding, actual; shares authorized, shares issued and outstanding, as adjusted	—	
Additional paid-in capital	12,881	
Accumulated other comprehensive loss	(349)	
Retained earnings (accumulated deficit)	(1,054)	
Total Snail Games USA Inc. equity	11,483	
Noncontrolling interest	(5,474)	
Total equity	6,009	
Total capitalization	$80,907	

DILUTION

As of June 30, 2022, we had a net tangible book value of $ million, corresponding to a net tangible book value of $ per share. After giving effect to the Transactions, our net tangible book value at June 30, 2022 would have been $ million, corresponding to a net tangible book value of $ per share. Net tangible book value represents the amount of our total assets less our total liabilities, excluding goodwill and other intangible assets, divided by , the total number of our shares outstanding as of June 30, 2022 (after giving effect to the Transactions).

After giving effect to the sale by us of the shares of Class A common stock offered by us in the offering at an assumed offering price of $ per share (the midpoint of the range set forth on the cover of this prospectus), after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value estimated at June 30, 2022 would have been approximately $, representing $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to new investors purchasing Class A common stock in this offering. Dilution for this purpose represents the difference between the price per share of Class A common stock paid by these purchasers and net tangible book value per share of Class A common stock immediately after the completion of the offering.

If you invest in our Class A common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of Class A common stock and the pro forma net tangible book value per share of Class A common stock after accounting for the issuance and sale of new Class A common stock in this offering.

The following table illustrates this dilution to new investors purchasing Class A common stock in the offering.

Initial public offering price per share		$
Net tangible book value per share as of June 30, 2022 (after giving effect to the Transactions)	$	
Increase in net tangible book value per share attributable to new investors in this offering	$	
Pro forma net tangible book value per share after this offering		$
Dilution per share to new investors in this offering		$

The actual offering price per share of Class A common stock is not based on the pro forma net tangible book value of our common stock, but will be established based through a book building process.

The following table summarizes, on the same pro forma as adjusted basis at June 30, 2022, the number of common stock acquired from us, the total cash consideration paid and the average price per common stock paid to us by our existing stockholders and by new investors purchasing Class A common stock in this offering. As the table shows, new investors purchasing shares in this offering will pay an average price per share substantially higher than our existing stockholders paid. This information is based on the assumed initial public offering price of $ per share of Class A common stock, before deducting the underwriting discounts and commissions and estimated offering expenses payable by us in connection with this offering.

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Weighted Average Price per Share
Existing stockholders		%	$	%	$
New investors		%		%	$
Total		%	$	%	

If the underwriters fully exercise their option to purchase additional shares of Class A common stock, the percentage of our common stock held by existing stockholders who are directors, officers or affiliated persons would be % and the percentage of our common stock held by new investors would be %.

A $1.00 increase (decrease) in the offering price per share of Class A common stock (the midpoint of the range set forth on the cover of this prospectus) would increase (decrease) the net tangible book value after this offering by $ per share of Class A common stock and the dilution to investors in the offering by $ per share of Class A common stock.

To the extent that (i) we grant options or restricted stock units to our employees in the future and those options are exercised or other issuances of Class A common stock are made, and (ii) we issue shares of Class A common stock upon the exercise of the Underwriters' Warrants, there will be further dilution to new investors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

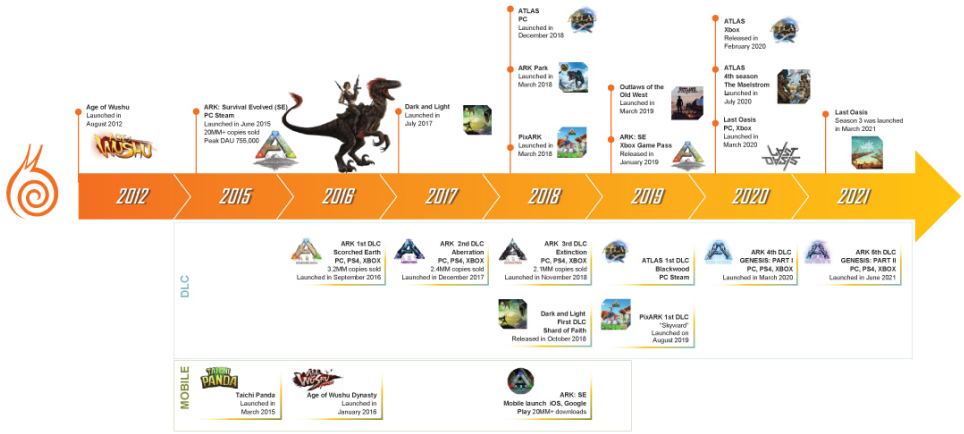
The following discussion and analysis should be read in conjunction with "Summary Consolidated Financial and Other Data," the consolidated financial statements and the related notes and the unaudited condensed consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve certain risks and uncertainties. Our actual results could differ materially from those discussed in these statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly under the "Risk Factors" and "Special Note Regarding Forward-Looking Statements" sections.

Overview

Our mission is to provide high-quality entertainment experiences to audiences around the world. We are a leading, global independent developer and publisher of interactive digital entertainment for consumers around the world. We have built a premier portfolio of premium games designed for use on a variety of platforms, including consoles, PCs, and mobile devices. For four of the last six years ended December 2021, most recently in 2020, *ARK: Survival Evolved* was a top-25 seller on the Steam platform across all game genres. Our expertise in technology, in-game ecosystems and monetization of online multiplayer games has enabled us to assemble a broad portfolio of intellectual property across multiple media formats and technology platforms. Our flagship franchise from which we generate the substantial majority of our revenues, *ARK: Survival Evolved*, is a leader within the sandbox survival genre with over 76.5 million console and PC installs through June 30, 2022. See "— Key Performance Metrics and Non-GAAP Measures." In the six month period ended June 30, 2022, *ARK: Survival Evolved* averaged a total of 395,150 daily active users ("DAUs") on the Steam and Epic platforms, and we experienced a peak of approximately 755,000 DAUs in June 2020. We define "daily active users" as the number of unique users who play any given game on any given day. For the years ended December 31, 2021, 2020 and 2019, we generated 90.7%, 89.5% and 80.5%, and for the six months ended June 30, 2022 and 2021, we generated 92.4% and 91.0%, respectively, of our revenues from *ARK: Survival Evolved*.

According to Newzoo, from 2021 to 2025, the global gaming industry is expected to grow approximately 17% from $192.7 billion in 2021 to $225.7 billion in 2025. In 2021, the global gaming market sales represented approximately 27% larger than the combined revenue generated by the global music, cinema, and OTT markets, according to Newzoo and PwC. The shift towards online game play along with in-game monetization and new platforms have fundamentally transformed the way consumers interact with video games. Moreover, digital distribution has democratized developer access, leading to an expansion of new titles to address consumer preferences. At Snail, we focus on building compelling interactive entertainment franchises, with an aim of ultimately creating a world-class metaverse driven by player-created content. We believe success in delivering a highly engaging consumer experience results from a combination of best-in-class creativity and innovative use of leading, cutting-edge technology and platforms.

Our dedication to provide audiences with high-quality entertainment experiences utilizing the latest gaming technology has produced strong user engagement, continued revenue growth, and increased cash flows. Through June 30, 2022, our *ARK* franchise game has been played for more than 2.8 billion hours with an average playing time per user of more than 159 hours and with the top 20% of all players spending over 100 hours in the game, according to data related to the Steam platform. For the years ended December 31, 2021, 2020 and 2019, our net revenue was $106.7 million, $124.9 million and $86.3 million, respectively, representing a compound annual growth rate of 11.2%. For the six months ended June 30, 2022 and 2021, our net revenue was $43.5 million and $58.8 million. We have maintained a diversified revenue base across platforms. During fiscal year 2021 with approximately 44% of the revenue comes from consoles, 40% from PC and 12% from mobile platforms. During the six months ended June 30, 2022, approximately 54% of the revenue comes from consoles, 31% from PC and 12% from mobile platforms. We had net income of $7.9 million for the year ended December 31, 2021 as compared to net income of $29.8 million for the year ended December 31, 2020 and net loss of $(15.2) million for the year ended December 31, 2019. We had net income of $4.8 million for the six months ended June 30, 2022 as compared to net income of $13.3 million for the six months ended June 30, 2021.



Our Business Model

We operate under a unique business model that allows us to benefit from diversified revenue streams.

Our console, PC and mobile games are available for sale or download via various digital distribution platforms and in retail stores. Digital and mobile distribution accounts for more than 97% of our distribution channel. We sell premium games that typically have a retail price of around $30.00 to $60.00, as well as DLCs that complement our master games and serve to expand gameplay content. Our DLCs typically have a retail price of $20.00 and promote the sale of our master games because they cannot be used standalone.

Our console and PC customers include Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store and Google Stadia, who we consider to be our platform partners. For our console and PC games, gamers pay and download the game from our platform partners; our platform partners retain between 12-30% of the gross revenue and subsequently pay us the remainder. We pay a royalty to our developers thereafter. From time to time, we also enter into agreements with our platform partners such as Microsoft to offer our games through their subscription services such as Xbox Game Pass.

We offer additional games through our independent development label, Wandering Wizard, which receives royalty payments, net of operating costs, from our licensers. We also partner with global distributors to offer our games through traditional retail channels. All of our mobile games are free-to-play, and we earn revenue from optional in-app purchases by users and from in-game advertisements. Mobile players increase the exposure of our brand and games, which directly helps us with marketing. Our mobile platform partners are the Apple App Store, the Google Play Store and the Amazon Appstore.

Key Factors Affecting Our Business

There are a number of factors that affect the performance of our business, and the comparability of our results from period to period, including:

Investments in our content strategy

We continuously evaluate and invest in content strategy to improve and innovate our games and features and to develop current technological platforms. We are currently actively investing in expanding our gaming pipeline as well as developing media and eSports content related to our gaming intellectual property. We also continue to invest to grow our micro-influencer platform, *NOIZ*, by attracting new influencers and brand customers.

Growth of user base

We have experienced significant growth in our number of downloads over the last several years. We have sold 33.3 million units between January 1, 2016 and June 30, 2022. During the year ended December 31,

2021, we sold 7.0 million units compared to 8.3 million and 4.1 million in the years ended December 31, 2020 and 2019, respectively. During the six months ended June 30, 2022, we sold 2.7 million units compared to 4.1 million during the six months ended June 30, 2021. Our video games provide highly engaging, differentiated entertainment experiences where the combination of challenge and progress drives player engagement, high average player times, and long-term franchise value. The success of our franchise hinges on our ability to keep our current players engaged while also growing our user base by innovating our platform and monetizing on new offerings. The degree to which gamers are willing to engage with our platform is driven by our ability to create interactive and unique content that will enhance the game-play experience. We sell DLCs which are supplementary to our master games and expand the gaming universe to continuously evolve the game and retain players.

While we believe we have a significant opportunity to grow our install base, we anticipate that our overall install growth rate will fluctuate over time as we continue to release new master games and companion DLCs. Download rates and user engagement may increase or decrease based on other factors such as growth in console, PC and mobile games, ability to release content, and market effectively and distribute to users.

Investments in our technology platform

We are focused on innovation and technology leadership in order to maintain our competitive advantage. We spend a portion of our capital on our research and development platform to continuously improve our technological offerings and gaming platform. Our proprietary video game technology includes a versatile game engine, development pipeline tools, advanced rendering technology and advanced server and network operations. Continued investment in improving the technology behind our existing gaming platforms as well as developing new software tools for new product offerings is important to maintaining our strategic goals, developer and creator talent, and financial objectives. For us to continue providing cutting-edge technology to our users to bring digital interactive entertainment to market, we must also continue to invest in developmental and creative resources. For our users, we regularly invest in user-friendly features and enhance user experience in our games and platforms. As our industry moves towards increased use of cloud gaming and gaming as a service technology, our ability to bring interactive technologies to market will be an increasingly important part of our business.

Ability to release content, market effectively through cross media and expand the gaming group

Establishing and maintaining a loyal network of players for our premium games is vital for our business and drives revenue growth. To grow and maintain our player base, we invest in developing new games to attract and engage players, and in providing existing audiences with proven content in the form of new DLCs. In the near-term, we may increase spending on original content creation with new studios, and on sales and marketing as a percentage of revenue to grow our player network. The scale of our player base is determined by a number of factors, including our ability to strengthen player engagement by producing content that players play regularly and our effectiveness in attracting new players, both of which may in turn affect our financial performance.

Strategic relationship with developers, Studio Wildcard & Suzhou Snail

We have grown and expect to continue to grow our business by collaborating with game studios that we believe can benefit from our team's decades of experience developing successful games. We have strategic relationships with many developer studios that create original content for us. The relationships allow for valuable knowledge sharing between Suzhou Snail, a related party, and the developer studios. We enjoy a long-term relationship with Studio Wildcard, which develops our *ARK* franchise. We have an exclusive license with Studio Wildcard for rights to *ARK*, and we work with them and our other studio developer partners to provide ongoing support across numerous aspects of game development. Our financial results may be affected by our relationship with game studios, including Studio Wildcard, and our ability to create self-developed titles.

Relationship with third party distribution platforms

We derive nearly all of our revenue from third-party distribution platforms, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the

Google Play Store and the Amazon Appstore. These digital distribution platforms have policies that may impact our reachability to our potential audience, including the discretion to amend their terms of service, which could affect our current operations and our financial performance. As we expand to new markets, we anticipate similar relationships with additional distribution partners that could similarly impact our performance.

Seasonality

We experience fluctuations in quarterly and annual operating results as a result of the timing of the introduction of new titles, variations in sales of titles developed for particular platforms, market acceptance of our titles, development and promotional activities relating to the introduction of new titles, releases of expansion packs and DLCs, and to coincide with the global holiday season in the fourth and first quarters of each year. Seasonality in our revenue also tends to coincide with promotional cycles on platforms, typically on a quarterly basis.

COVID-19

Since March 2020, the COVID-19 pandemic has caused major disruption to all aspects of the global economy and daily life, particularly as quarantine and stay-at-home orders have been imposed by all levels of government. We have followed guidance by U.S. and other applicable foreign and local governments to protect our employees and operations during the pandemic and have implemented a remote environment for our business.

Despite the challenges we have faced in light of the COVID-19 pandemic, our revenues and number of installs have increased while the stay-at-home orders were at their peak across the United States. As individuals spent more time at home, we observed an increase in time spent with digital entertainment, including casual gaming and games involving socially interactive experiences. For example, primarily during the second quarter of 2020, we saw increased sales and revenues relative to our quarterly forecasts and historic trends. However, during the third quarter of 2020, sales and revenues returned to levels more consistent with historical periods, a pattern which continued for the remainder of 2020, 2021 and in the first half of 2022.

We cannot predict the potential future impact the COVID-19 pandemic may have on our business or operations. See "Risk Factors — Risks Related to Our Business — The COVID-19 pandemic and containment efforts across the globe have materially altered how individuals interact with each other and have materially affected how we and our business partners are operating, and the extent to which this situation will impact our future results of operations and overall financial performance remains uncertain" for more information.

In 2020, we applied for, and received, funds under the Paycheck Protection Program ("PPP") in the amount of $0.8 million. In December 2020, $0.1 million of the PPP loan was forgiven by the U.S. Small Business Administration (the "SBA"). In March 2021, an additional $0.4 million principal amount of the PPP loan balance was forgiven by the SBA and, as of April 2022, all outstanding amounts under the PPP loan had been repaid or forgiven.

We will continue to evaluate the nature and extent of the potential impact of the COVID-19 pandemic on our business, results of operations and liquidity.

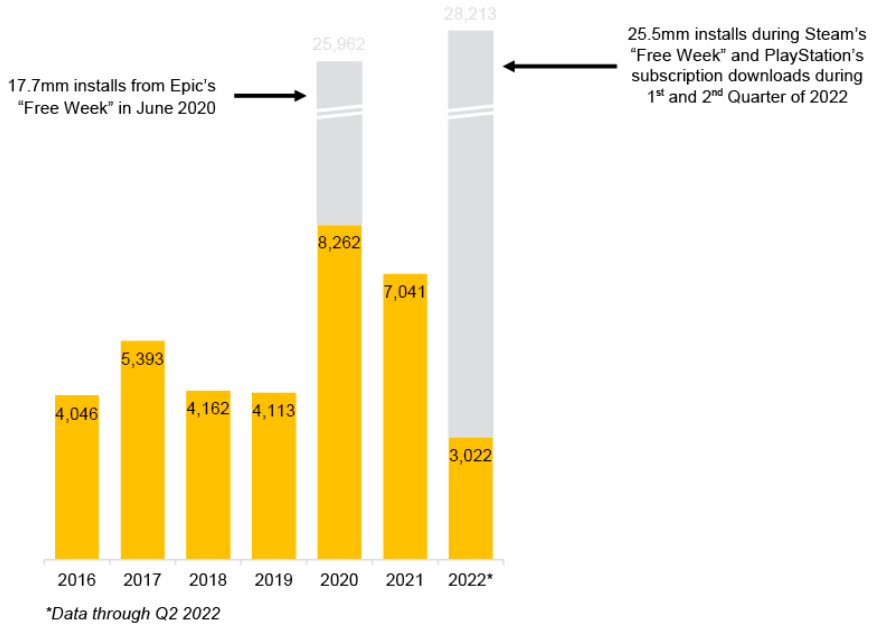
Key Performance Metrics and Non-GAAP Measures

Units Sold

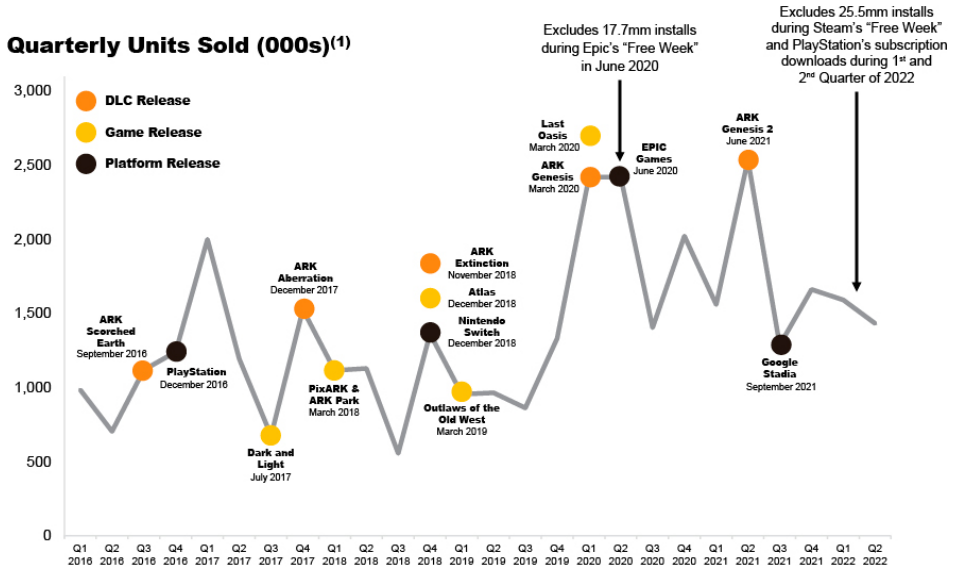
We monitor Units Sold as a key performance metric in evaluating the performance of our console and PC game business. We define Units Sold as the number of game titles purchased through digital channels by an individual end user. Under this metric, the purchase of a standalone game, DLC, Season Pass or bundle on a specific platform are individually counted as a unit. For example, an individual who purchases a standalone game and DLC on one platform, a Season Pass on another platform, and a bundle on a third platform would count as four Units Sold. Similarly, an individual who purchases three standalone game titles on the same platform would count as three Units Sold.

Units Sold may be impacted by several factors that could cause fluctuations on a quarterly basis, such as game releases, our promotional activities, which most often coincide with the global holiday season in the fourth and first quarters of each year, promotional sales on digital platforms, console release cycles and new digital platforms. Future growth in Units Sold will depend on our ability to launch new games and features and the effectiveness of marketing strategies.

Annual Units Sold (000s)(1)



(1) Units include master games, DLCs, season pass and bundles and excludes skins, soundtracks and other items.



(1) Units include master games, DLCs, season pass and bundles and excludes skins, soundtracks and other items.

Bookings & Adjusted EBITDA

In addition to our financial results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe Bookings and Adjusted EBITDA, as non-GAAP measures, are useful in evaluating our operating performance. Bookings and Adjusted EBITDA, as used in this prospectus, are non-GAAP financial measures that are presented as supplemental disclosures and should not be construed as alternatives to net income (loss) or revenue as indicators of operating performance, nor as alternatives to cash flow provided by operating activities as measures of liquidity, both as determined in accordance with GAAP.

We supplementally present Bookings and Adjusted EBITDA because they are key operating measures used by our management to assess our financial performance. Bookings adjusts for the impact of deferrals and, we believe, provides a useful indicator of sales in a given period. Adjusted EBITDA adjusts for items that we believe do not reflect the ongoing operating performance of our business, such as certain non-cash items, unusual or infrequent items or items that change from period to period without any material relevance to our operating performance. Management believes Bookings and Adjusted EBITDA are useful to investors and analysts in highlighting trends in our operating performance, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate and capital investments. Management uses Bookings and Adjusted EBITDA to supplement GAAP measures of performance in the evaluation of the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against other peer companies using similar measures. We evaluate Bookings and Adjusted EBITDA in conjunction with our results according to GAAP because we believe it provides investors and analysts a more complete understanding of factors and trends affecting our business than GAAP measures alone. Bookings and Adjusted EBITDA should not be considered as alternatives to net income (loss), as measures of financial performance or any other performance measure derived in accordance with GAAP.

Bookings

Below is a reconciliation of total net revenue to Bookings, the closest GAAP financial measure.

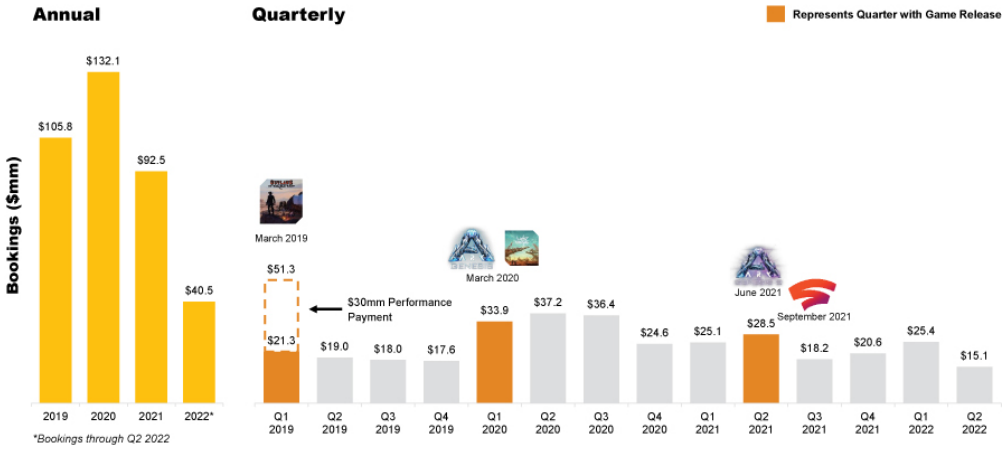
Bookings is defined as the net amount of products and services sold digitally or physically in the period. Bookings is equal to revenues excluding the impact from deferrals.

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Total net revenue	$106.7	$124.9	$ 86.3	$43.5	$58.8
Change in deferred net revenue	(14.2)	7.2	19.5	(3.0)	(5.2)
Bookings	$ 92.5	$132.1	$105.8	$40.5	$53.6

For the year ended December 31, 2021, bookings decreased by $39.6 million, or 30.0%, compared to the year ended December 31, 2020, primarily as a result of a decline in total net revenue due to a decline in Units Sold as sales levels returned to historical levels, and a decrease in deferred net revenue due to meeting performance obligations in 2021 for which we received prepayments from platform providers in prior years. For the year ended December 31, 2020, bookings increased by $26.3 million, or 24.8%, compared to the year ended December 31, 2019, primarily as a result of an increase in net revenue in 2020 that was driven by *ARK: Genesis Part 1*, which we released in August 2019 and which increased our net revenue by $38.6 million in 2020 compared to 2019, and a decrease in deferred net revenue in 2020 as a result of a greater amount of prepayments from our platform partners in 2019 compared to the 2020 period.

For the six months ended June 30, 2022, bookings decreased by $13.1 million, or 24.4%, compared to the six months ended June 30, 2021, primarily as a result of a decline in *ARK*-related revenues. During the six month period ended June 30, 2021, we also launched our Genesis II DLC.

Our bookings for the years ended December 31, 2019, 2020 and 2021 and for each completed quarter beginning with the quarter ended March 31, 2019, were as follows:



Adjusted EBITDA

Below is a reconciliation of net income (loss) to Adjusted EBITDA, the closest GAAP financial measure. We define Adjusted EBITDA as net income (loss) before (i) interest expense, (ii) interest income, (iii) income tax provision (benefit), (iv) depreciation and amortization expense, (v) amortization — intangible assets (other), (vi) impairment of intangible assets, (vii) litigation settlement expense and (viii) gain on the sale of membership interest of equity investment.

Adjusted EBITDA as calculated herein may not be comparable to similarly titled measures reported by other companies within the industry and is not determined in accordance with GAAP. Our presentation of

Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or unexpected items. We may also incur expenses that are the same, or similar to, some of the adjustments in this presentation.

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Net income (loss)	$ 7.9	$29.8	$(15.2)	$ 4.8	$13.3
Interest income and interest income – related parties	(1.7)	(1.0)	(0.5)	(0.6)	(0.8)
Interest expense and interest expense – related parties	0.4	0.6	1.5	0.3	0.2
Income tax provision (benefit)	1.8	6.8	(2.5)	1.2	3.3
Depreciation and amortization expense	0.8	0.9	1.0	0.3	0.4
Amortization – intangible assets (other)	—	0.2	0.6	0.1	—
EBITDA	9.2	37.3	(15.1)	6.1	16.4
Impairment of intangible assets[(1)]	16.3	1.3	—	—	—
Litigation settlement expense[(2)]	—	5.5	—	—	—
Gain on the same of membership interest of equity investment[(3)]	—	(4.9)	—	—	—
Adjusted EBITDA	**$25.5**	**$39.2**	**$(15.1)**	**$ 6.1**	**$16.4**

(1) During 2021, we impaired the game license related to *Atlas*, a game licensed from our related party, SDE, Inc. Although we continue to work on the development of the game, we believe that the future economic benefits will not sustain the recovery of the net book value of the game license right capitalized. Therefore, we recognized $16.3 million as impairment loss for the year ended December 31, 2021. During 2020, we impaired the analytics technology related to a game developed by one of our subsidiaries, Frostkeep Studios, Inc. We believe that the analytics technology will no longer provide future value, and we do not intend to make future investment into developing the game. Therefore, we recognized $1.3 million as impairment loss for the year ended December 31, 2020.

(2) During 2020, we were subject to litigation and entered into a settlement agreement, payments for which began in 2021. Because of the non-recurring nature of the litigation, we have an accrual cost of $5.5 million for the year ended December 31, 2020.

(3) Reflects the gain recognized in connection with the sale of Pound Sound, LLC. See "— Liquidity and Capital Resources — Investing activities."

Components of our Results of Operations

Revenues

We primarily derive revenue from the sale of our games through various gaming platforms. Through these platforms, users can download our games and, for certain games, purchase virtual items to enhance their game-playing experience. We offer certain software products through third-party digital storefronts, such as Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore, and certain retail distributors. For sales arrangements through Xbox Live and Game Pass, PlayStation Network, Steam, Epic Game Stores, Google Stadia and retail distributors, the digital platforms and distributors have discretion in establishing the price for the specified good or service, and we have determined we are the agent in the sales transaction to the end user and therefore report revenue on a net basis based on the consideration received from the digital storefront. For sales arrangements through the Apple App Store and the Google Play Store, we have discretion in establishing the price for the specified good or service and have determined that we are the principal to the end user and therefore report revenue on a gross basis. Mobile platform fees charged by these digital storefronts are expensed as incurred and reported within cost of revenue as merchant fees.

We record deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations. Deferred revenue is comprised of the transaction price allocable to our performance obligation on technical support and the sale of virtual goods available for in-app purchases,

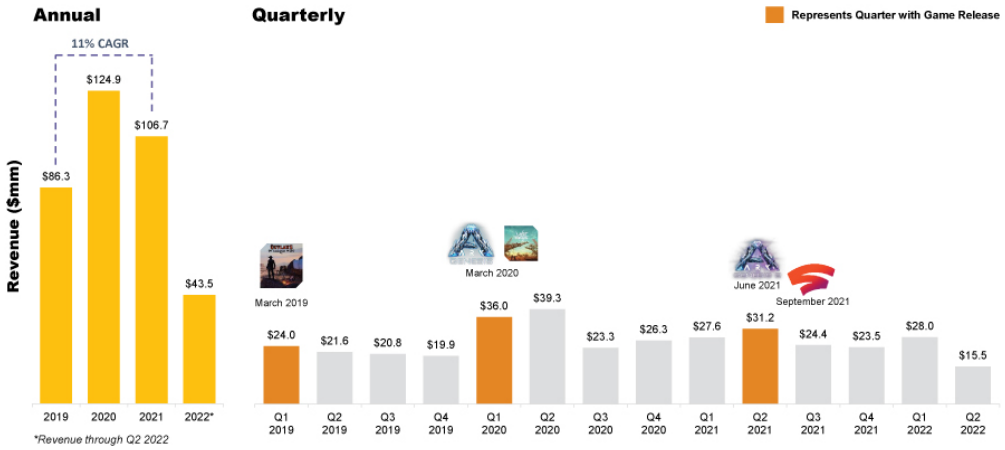
and payments received from customers prior to launching the games on the platforms. We record deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations.

Our net revenues through our top platform providers as a proportion of our total net revenue for the years ended December 31, 2021, 2020 and 2019 and the six months ended June 30, 2022 were as follows:

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Valve Corporation (Steam)	$ 35.3	$ 40.5	$22.4	$12.7	$21.0
Microsoft Corporation	22.7	31.6	27.3	13.6	12.6
Sony Interactive Entertainment LLC	11.5	15.3	9.7	6.6	7.5
Sony Interactive Entertainment Europe	9.6	12.3	8.0	2.4	6.3
All Other Revenue	27.6	25.2	18.9	8.2	11.4
Total	$106.7	$124.9	$86.3	$43.5	$58.8

We expect changes in revenue to correlate with trends in the use and purchase of our games.

Our net revenues for the years ended December 31, 2019, 2020 and 2021 and for each completed quarter beginning with the quarter ended March 31, 2019, were as follows:



Cost of revenue

Cost of revenue includes license royalty fees, merchant fees, engine fees, server and database cost centers, game licenses and license right amortization. For a description of our licensing arrangements, please see "Business — Intellectual Property." We generally expect cost of revenue to fluctuate proportionately with revenues.

General and administrative

General and administrative expenses include rent expense, outsourced professional services such as consulting, legal and accounting services, taxes and dues, insurance premiums, and costs associated with maintaining our property and infrastructure. General and administrative expenses also include salaries and wages, which consist of compensation we pay to our employees. We expect salaries and wages to increase in a manner that is proportional with the added expenses and expertise of operating as a public company. We also expect salaries and wages to increase as we increase headcount as we expand our product offerings.

Future stock-based compensation will be recorded within general and administrative expense. We also record legal settlement expenses as components of general and administrative expenses. We expect general and administrative expenses will increase in absolute dollars due to the additional administrative and regulatory burden of becoming and operating as a public company.

Research and development

Research and development consists primarily of consulting expenses and salaries and wages devoted towards the development of new games and related technologies. We do not fund or enter into arrangements relating to the research and development activities from third-party developers from whom we license games. We expect our research and development to increase as we develop new content, games or technologies.

Advertising and marketing

Advertising and marketing consists of costs related to advertising and user acquisition efforts, including payments to third-party marketing agencies. We occasionally offer our early access trial, through which we sell our games that are in development and testing. The early access trial allows us to both monetize and receive feedback on how to improve our games over time. We plan to continue to invest in advertising and marketing to retain and acquire players. However, sales and marketing expenses may fluctuate as a percentage of revenues depending on the timing and efficiency of our marketing efforts.

Interest expense and other, net

Interest expense consists of interest incurred under our Term Loans, Revolver and Promissory Notes (each as defined herein). We expect to continue to incur interest expense under our debt instruments, although with respect to certain instruments, our interest expense will fluctuate based upon the underlying variable interest rates.

Provision for income taxes

The provision for income taxes consists of current income taxes in the various jurisdictions where we are subject to taxation, primarily the United States, as well as deferred income taxes reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities in each of these jurisdictions for financial reporting purposes and the amounts used for income tax purposes. Under current U.S. tax law, the federal statutory tax rate applicable to corporations is 21%. Our effective tax rate differed from the federal statutory rate of 21% primarily as a result of changes in the valuation allowance on our deferred tax assets and the expected incremental benefit from the five-year net operating loss carryback provision permitted by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and special deductions related to fiscal year 2022 estimated foreign derived intangible income deduction.

Results of Operations

Comparison of the fiscal year ended December 31, 2021 versus the fiscal year ended December 31, 2020, and comparison of the fiscal year ended December 31, 2020 versus the fiscal year ended December 31, 2019.

	Years Ended December 31,			% of Changes	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
	($ in millions)			(in %)	
Revenues, net	$106.7	$124.9	$86.3	(14.6)	44.7
Cost of revenues	63.7	67.3	78.1	(5.3)	(13.8)
Gross profit	43.0	57.6	8.2	(25.3)	602.4
Operating expenses:					
General and administrative	16.4	22.9	20.3	(28.4)	12.8
Research and development	0.8	1.4	2.0	(42.9)	(30.0)
Advertising and marketing	0.3	1.1	0.7	(72.7)	57.1

	Years Ended December 31,			% of Changes	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
	($ in millions)			(in %)	
Depreciation and amortization	0.8	0.9	1.0	(11.1)	(10.0)
Loss on disposal of fixed assets	0.1	0.1	—	—	—
Impairment of intangible assets	16.3	1.3	—	1,153.8	—
Total operating expenses	34.7	27.7	23.9	25.3	15.9
Income (loss) from operations	**$ 8.3**	**$30.0**	**$(15.7)**	**(72.3)**	**291.1**

Revenues

Net revenues for the year ended December 31, 2021 decreased by $18.2 million, or 14.6%, compared to the year ended December 31, 2020. The decrease in net revenue was primarily due to decrease in Units Sold as sales returned to more historical levels and due to platform provider promotional activities that did not reoccur in 2021 versus 2020.

Net revenues for the year ended December 31, 2020 increased by $38.6 million, or 44.7%, compared to the year ended December 31, 2019. The increase in revenue was primarily due to (i) sales of *ARK: Genesis Part 1*, which we released in August 2019 and which increased our revenue by $34.6 million in 2020 compared to 2019, (ii) $4.0 million generated from platform provider driven promotional activities whereby certain of our games were available for a limited time for download by the platform providers' customers for free, and (iii) sales of *Last Oasis*, which we released in March 2020 and which contributed $3.4 million in 2020, all partially offset by declines in sales of *Atlas*, which decreased $2.4 million in 2020.

Cost of revenues

Cost of revenues for the year ended December 31, 2021 decreased by $3.6 million, or 5.3%, compared to the year ended December 31, 2020.

Cost of revenues for the year ended December 31, 2020 decreased by $10.8 million, or 13.8%, compared to the year ended December 31, 2019.

Cost of revenues for the years ended December 31, 2021, 2020 and 2019 comprised the following:

	Year ended December 31,		
	2021	2020	2019
		(in millions)	
Software license royalties	$21.4	$25.5	$24.2
License cost and license right amortization	33.3	31.7	44.2
Merchant fee	3.8	4.2	4.7
Engine fee	3.1	3.9	2.4
Internet, server, and data center	2.1	2.0	2.5
Total	$63.7	$67.3	$78.0

The decrease in cost of revenue during the year ended December 31, 2021 was primarily due to a decline in Units Sold versus 2020 and the resultant decline in software license royalties, merchant fees and engine fees, partially offset by an increase in license cost and license right amortization as a result of the 2021 release of *ARK: Genesis Part II*.

The decrease in cost of revenue during the year ended December 31, 2020 was primarily due to a decline in license and license right amortization expense, primarily as a result of renegotiating certain license agreements in 2020 and additional expense in 2019 associated with the release of *ARK: Genesis Part 1*, which was offset by an increase in the engine fee, which change is correlated generally with changes in revenue.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2021 decreased by $6.5 million, or 28.4%, compared to the year ended December 31, 2020. The decrease in general and administrative expenses was primarily due to a decline in litigation accrual following a $4.1 million litigation settlement payment in 2021.

General and administrative expenses for the year ended December 31, 2020 increased by $2.6 million, or 12.8% compared to the year ended December 31, 2019. The increase in general and administrative expenses was primarily due to an increase in litigation accrual following a litigation settlement we entered into during 2020.

Research and development expenses

Research and development expenses for the year ended December 31, 2021 decreased by $0.6 million, or 42.9%, compared to the year ended December 31, 2020. The decrease in research and development expenses was primarily due to a reduction in expenditures among Snail Innovation, one of our research and development centers.

Research and development expenses for the year ended December 31, 2020 decreased by $0.6 million, or 30%, compared to the year ended December 31, 2019. The decrease in research and development expenses was primarily due to a reduction in research and development activities surrounding artificial reality technology.

Advertising and marketing expenses

Advertising and marketing expenses for the year ended December 31, 2021 decreased by $0.8 million, or 72.7%, compared to the year ended December 31, 2020, primarily as a result of sponsoring a game awards event in 2020 that we did not sponsor in 2021.

Advertising and marketing expenses for the year ended December 31, 2020 increased by $0.5 million, or 57.1%, compared to the year ended December 31, 2019. The increase in advertising and marketing expenses was primarily due to sponsoring a game awards event in 2020 that we did not sponsor in 2019.

Depreciation and amortization expenses

Depreciation and amortization expenses for the year ended December 31, 2021 decreased by $0.1 million, or 11.1%, compared to the year ended December 31, 2020. The decrease in depreciation and amortization expenses was primarily due to the disposal of certain fixed, depreciable assets in 2021 relating to an office relocation.

Depreciation and amortization expenses for the year ended December 31, 2020 decreased by $0.1 million, or 10%, compared to the year ended December 31, 2019. The decrease in depreciation and amortization expenses was primarily due to the write off of depreciable assets relating to the office of the in-house studio that we winded down in the first half of 2020.

Other Factors Affecting Net Income (Loss)

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
Interest income	$ 0.1	$ 0.1	$ 0.1
Interest income – related parties	1.6	1.0	0.5
Interest expense	(0.4)	(0.6)	(1.5)
Interest expense – related parties	—	—	(0.1)
Other income	0.5	0.5	—

	Year ended December 31,		
	2021	2020	2019
	(in millions)		
Gain on the sale of membership interest of equity investment	—	4.9	—
Equity in earnings (loss) of unconsolidated entity	(0.3)	0.7	(1.1)
Income tax provision (benefit)	1.8	6.8	(2.5)

Interest income

Interest income in the years ended December 31, 2021, 2020 and 2019 primarily related to deposits with third-party financial institutions, while interest income — related parties primarily stemmed from the interest charged on the shareholder loan.

Interest income — related parties were $1.6 million, $1.0 million and $0.5 million for the years ended December 31, 2021, 2020 and 2019, respectively. The increase was primarily as a result of a year-over-year increase in the principal amount outstanding under the shareholder loan.

Interest expense

Interest expense primarily related to our outstanding indebtedness with our third-party lenders. Interest expense decreased by $0.1 million for the year ended December 31, 2021 primarily as a result of a lower interest rate on outstanding borrowings, which we negotiated in 2021.

Interest expense decreased by $0.9 million for the year ended December 31, 2020 as a result of the repayment of a portion of the outstanding principal.

Gain on sale of membership interest of equity investment

Gain on sale of membership interest of equity investment in 2020 related to the gain on our sale of membership interests in Pound Sand, LLC, an equity method investment. See Note 10, “Equity Investments” to our consolidated financial statements included in this prospectus.

Taxes on income (loss)

The provision for income tax (benefit from) was $1.8 million, $6.8 million and ($2.5 million) for the years ended December 31, 2021, 2020 and 2019, respectively, representing a decrease of $5.0 million from 2020 to 2021 and an increase of $9.3 million from 2019 to 2020. Our effective income tax rate was 18.4%, 18.6% and 14.1% for the years ended December 31, 2021, 2020 and 2019, respectively. The year-over-year fluctuations in our effective tax rate was primarily due to changes in the valuation allowance against deferred tax assets and one-time benefit of the net operating loss carryback for the 2020 tax year.

Comparison for the six months ended June 30, 2022 versus the six months ended June 30, 2021.

	Six months ended June 30,		% of Changes
	2022	2021	2022 vs. 2021
	(in millions)		
Revenues, net	$43.5	$58.8	(26.0)%
Cost of revenues	26.3	32.9	(20.1)
Gross profit	17.2	25.9	(33.6)
Operating expenses:			
General and administrative	10.7	9.1	17.6
Research and development	0.4	0.4	—
Advertising and marketing	0.4	0.1	300.0
Depreciation and amortization	0.3	0.4	(25.0)

	Six months ended June 30,		% of Changes
	2022	2021	2022 vs. 2021
	(in millions)		
Loss on disposal of fixed assets	—	—	—
Impairment of intangible assets	—	—	—
Total operating expenses	11.8	10.0	18.0
Income (loss) from operations	$ 5.4	$15.9	(66.0)%

Revenues

Net revenues for the six months ended June 30, 2022 decreased by $15.3 million, or 26%, compared to the six month period ended June 30, 2021. In June 2021, the Company launched *Genesis II*, but no such event occurred during the six months ended June 30, 2022. For the six months ended June 30, 2022, PC and console revenues decreased by $13.2 million, and mobile revenue decreased by $1.7 million compared to the six month period ended June 30, 2021. Despite the decrease in Units Sold, the Company recorded a significant increase in its game installs during the six months ended June 30, 2022, mainly caused by the free week promotion on the Steam platform and the subscription program on PlayStation, as a result of which the Company recorded 28.2 million installs, compared to 4.1 million installs for the period ended June 30, 2021.

Cost of revenues

Cost of revenues for the six months ended June 30, 2022 decreased by $6.6 million, or 20.1%, compared to the six month period ended June 30, 2021.

Cost of revenues for the six months ended June 30, 2022 and 2021, respectively, comprised the following:

	Six months ended June 30,	
	2022	2021
	(in millions)	
Software license royalties – related parties	$ 9.9	$12.1
License and amortization – related parties	12.7	15.8
License and amortization	0.2	0.2
Game localization	—	—
Merchant fees	1.3	2.0
Engine fees	1.2	1.9
Internet, server and data center	1.0	0.9
Total	$26.3	$32.9

The decrease in cost of revenue during the six months ended June 30, 2022 was primarily due to a reduction in license royalties in line with the reduced sales during the period and lower amortization costs as a result of the impairment loss on the Atlas license attributing to a lower amortizable base.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2022 increased by $1.6 million, or 17.6%, compared to the six months ended June 30, 2021. The increase in general and administrative expenses was primarily due to increased legal and professional expenses as a result of the Angela Games litigation offset by reduced contractor expenses from decreased activity in the Company's subsidiary, BTBX.IO.

Research and development expenses

Research and development expenses for the six months ended June 30, 2022 remained approximately the same as compared to the six months ended June 30, 2021.

Advertising and marketing expenses

Advertising and marketing expenses for the six months ended June 30, 2022 increased by $0.3 million, or 300%, compared to the six months ended June 30, 2021, primarily as a result of increased campaigns on *NOIZ* and the Company's participation at the Gamesbeat Summit in 2022.

Depreciation and amortization expenses

Depreciation and amortization expenses for the six months ended June 30, 2022 decreased by $0.1 million, or 25.0%, compared to the six months ended June 30, 2021. The decrease in depreciation and amortization expenses was primarily due to the termination of a lease and reduction in leasehold improvements.

Other Factors Affecting Net Income (Loss)

	Six months ended June 30,	
	2022	2021
	(in millions)	
Interest income	$ —	$ 0.1
Interest income – related parties	0.6	0.7
Interest expense	(0.3)	(0.2)
Other income	0.3	0.5
Equity in (loss) of unconsolidated entity	—	(0.3)
Income tax provision	1.2	3.3

Interest income

Interest income in the six months ended June 30, 2022 and 2021 primarily related to our deposits with third-party financial institutions, while interest income — related parties primarily stemmed from the interest charged on the shareholder loan.

Interest income — related parties were $0.6 million and $0.7 million for the six months ended June 30, 2022 and 2021, respectively. The decrease was primarily as a result of the distribution of the shareholder loan upstream in April 2022.

Interest expense

Interest expense primarily related to our outstanding indebtedness with our third-party lenders.

Interest expense increased by $0.1 million for the six months ended June 30, 2022 primarily as a result of interest charges on the new short-term note issued in January 2022.

Taxes on income (loss)

The provision for income tax was $1.2 million and $3.3 million for the six months ended June 30, 2022 and 2021, respectively, representing a decrease of $2.1 million. Our effective income tax rate was 20% and 20% for the six months ended June 30, 2022 and 2021, respectively.

Quarterly Results of Operations

The following table sets forth our selected unaudited quarterly consolidated statements of operations data for each of the quarters beginning with the quarter ended March 31, 2020 and ending with the quarter ended June 30, 2022. The information for each of these quarters has been prepared on the same basis as our audited annual consolidated financial statements and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements

included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for the full year or any other period.

	For the Three Months Ended					For the Three Months Ended					For the Three Months Ended	
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	FY 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	FY 2021	March 31, 2022	June 30, 2022
						($ rounded to millions)						
Revenues, net	$36.0	$39.2	$23.3	$26.4	$124.9	$27.6	$31.2	$24.4	$ 23.5	$106.7	$28.1	$15.5
Cost of revenues	18.2	18.8	14.6	15.7	67.3	15.7	17.1	15.5	15.4	63.7	14.9	11.4
Gross profit	17.8	20.4	8.7	10.7	57.6	11.9	14.1	8.9	8.1	43.0	13.2	4.1
Operating expenses:												
General and administrative	4.2	4.2	4.1	10.3	22.8	4.5	4.6	4.0	3.3	16.4	5.6	5.1
Research and development	0.5	0.4	0.3	0.2	1.4	0.1	0.2	0.2	0.3	0.8	0.2	0.2
Advertising and marketing	—	0.4	0.1	0.6	1.1	—	0.1	0.2	—	0.3	0.2	0.2
Depreciation and amortization	0.2	0.2	0.2	0.3	0.9	0.2	0.2	0.2	0.2	0.8	0.2	0.1
Loss on disposal of fixed assets	0.1	—	—	—	0.1	—	—	—	0.1	0.1	—	—
Impairment of intangible assets	1.3	—	—	—	1.3	—	—	—	16.3	16.3	—	—
Total operating expenses	6.3	5.2	4.7	11.4	27.6	4.8	5.1	4.6	20.2	34.7	6.2	5.6
Income (loss) from operations	11.5	15.2	4.0	(0.7)	30.0	7.1	9.0	4.3	(12.1)	8.3	7.0	(1.5)
Other income (expense):												
Interest income	—	—	—	0.1	0.1	—	—	—	0.1	0.1	—	—
Interest Income – related parties	0.2	0.2	0.3	0.3	1.0	0.3	0.4	0.5	0.4	1.6	0.5	0.1
Interest expense	(0.2)	(0.1)	(0.2)	(0.1)	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.2)	(0.2)
Interest expense – related parties	—	—	—	—	—	—	—	—	—	—	—	—
Other income	—	—	—	0.5	0.5	0.4	—	—	0.1	0.5	—	0.3
Gain on sale of membership interest of equity investment	—	—	—	4.9	4.9	—	—	—	—	—	—	—
Foreign currency transaction loss	—	—	—	—	—	(0.1)	—	—	—	(0.1)	—	—
Equity in earnings (loss) of unconsolidated entity	(0.3)	0.2	0.3	0.5	0.7	—	(0.3)	—	—	(0.3)	—	—
Total other income (expense), net	(0.3)	0.3	0.4	6.2	6.6	0.5	—	0.4	0.5	1.4	0.3	0.2
Income (loss) before provision for (benefit from) income taxes	11.2	15.5	4.4	5.5	36.6	7.6	9.0	4.7	(11.6)	9.7	7.3	(1.3)
Income tax provision (benefit from)	0.8	3.1	1.0	1.9	6.8	1.6	1.7	0.9	(2.4)	1.8	1.5	(0.3)
Net income (loss)	10.4	12.4	3.4	3.6	29.8	6.0	7.3	3.8	(9.2)	7.9	5.8	(1.0)
Net loss attributable to non-controlling interests	(0.3)	(0.2)	(0.2)	(0.2)	(0.9)	(0.2)	(0.2)	(0.1)	(0.1)	(0.6)	—	0.1
Net income (loss) attributable to Snail Games USA, Inc.	10.7	12.6	3.6	3.8	30.7	6.2	7.5	3.9	(9.1)	8.5	5.8	(1.1)
Comprehensive income statement:												
Other comprehensive income (loss)	—	(0.1)	—	—	(0.1)	—	—	0.4	(0.5)	(0.1)	(0.1)	—
Total other comprehensive income (loss)	$10.7	$12.5	$ 3.6	$ 3.8	$ 30.6	$ 6.2	$ 7.5	$ 4.3	$ (9.6)	$ 8.4	$ 5.7	$ (1.1)

Liquidity and Capital Resources

Capital spending

We incur capital expenditures in the normal course of business and perform ongoing enhancements and updates to our social and mobile games to maintain their quality standards. Cash used for capital expenditures in the normal course of business is typically made available from cash flows generated by operating activities. We may also pursue acquisition opportunities for additional businesses or games that meet our strategic and return on investment criteria. Capital needs for investment opportunities are evaluated on an individual opportunity basis and may require significant capital commitments.

Liquidity

Our primary sources of liquidity are the cash flows generated from our operations, currently available unrestricted cash and cash equivalents. Our unrestricted cash and cash equivalents were $10.2 million and $27.6 million as of December 31, 2021 and 2020, respectively. Our unrestricted cash and cash equivalents were $14.7 million and $29.1 million as of June 30, 2022 and 2021, respectively.

Our restricted cash and cash equivalents were $6.4 million, and $6.3 million as of December 31, 2021, and 2020, respectively. Our restricted cash and cash equivalents were $6.4 million and $6.4 million as of June 30, 2022 and 2021, respectively. Our restricted cash primarily consists of time deposits, and is used as security for certain of our debt instruments and to secure standby letters of credit with certain of our landlords.

Cash flows

The following tables present a summary of our cash flows for the periods indicated (in millions):

	Years ended December 31,			Six months ended June 30,	
	2021	2020	2019	2022	2021
			(in millions)		
Net cash provided by operating activities	$ 15.8	$ 48.5	$ 55.2	$ 3.4	$ 19.8
Net cash from (used in) investing activities	(35.8)	(18.1)	(32.0)	1.5	(20.6)
Net cash from (used in) financing activities	2.6	(7.6)	(30.0)	(0.4)	2.7
Effect of currency translation on cash and cash equivalents	0.1	(0.1)	(0.1)	—	(0.3)
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	$(17.3)	$ 22.7	$ (6.9)	$ 4.5	$ 1.6

Operating activities

Net cash flows provided by operating activities for the year ended December 31, 2021 decreased $32.7 million as compared to the year ended December 31, 2020, which resulted primarily from a $29.8 million net decrease in change in net operating assets and liabilities, a period-over-period decrease in net income of $21.8 million and an increase of $19.0 million in non-cash reconciling items.

Net cash flows provided by operating activities for the year ended December 31, 2020 decreased $6.7 million as compared to the year ended December 31, 2019, which resulted primarily from a period-over-period increase in net income of $45.0 million, a decrease of $34.9 million in non-cash reconciling items, and a $16.8 million net decrease in change in net operating assets and liabilities.

Net cash flows provided by operating activities for the six months ended June 30, 2022 decreased $16.4 million as compared to the six months ended June 30, 2021, which resulted primarily from a $4.9 million net decrease in change in net operating assets and liabilities, a period-over-period decrease in net income of $8.5 million and a decrease of $3.0 million in non-cash reconciling items.

Net income was $7.9 million and $29.8 million for the years ended December 31, 2021 and 2020, respectively, representing a decrease of $21.9 million. The decrease was primarily due to a period-over-period decrease in revenue of $18.2 million, an increase in impairment of intangible assets of $15.0 million, a gain on sale of membership interest of equity investment of $4.9 million that occurred in 2020, offset by a decrease in license cost and license right amortization of $2.5 million and a decrease of $1.2 million in our engine fee and merchant fee, a decrease in general and administrative expense of $6.5 million, a decrease in income tax provision of $5.0 million and an increase in interest income-related parties by $0.7 million.

Net income increased $45.0 million between 2020 and 2019, to a net income of $29.8 million in 2020 from a net loss of $15.2 million in 2019. The increase was primarily due to a period-over-period increase in revenue of $38.6 million and a decrease in license cost and license right amortization of $11.2 million from 2019 to 2020, partially offset by a $1.5 million increase in our engine fee and an increase in general and administrative expense of $2.6 million.

Net income was $4.8 million and $13.3 million for the six months ended June 30, 2022 and 2021, respectively, representing a decrease of $8.5 million. The decrease was primarily due to a decrease in revenue of $15.3 million, an increase in general and administrative expenses of $1.6 million, offset by a decrease in license cost and license right amortization of $5.2 million, a decrease in merchant and engine fees of $1.4 million and a decrease in the Company’s tax provision of $2.1 million,

Non-cash reconciling items were $27.5 million and $8.4 million for the years ended December 31, 2021 and 2020, respectively, representing an increase of $19.1 million. The increase in the non-cash reconciling items was primarily due to an increase of impairment of intangible assets by $15.1 million, an increase of $1.5 million of amortization of intangible assets, no gain on sale of membership interest in 2021, which

resulted to an increase to the non-cash reconciling items by $4.9 million in 2021, offset by increased interest income from shareholder loan of $0.6 million and an increase in deferred income taxes of $2.2 million.

Non-cash reconciling items were $8.4 million and $43.3 million for the years ended December 31, 2020 and 2019, respectively, representing a decrease of $34.9 million. The decrease in the non-cash reconciling items was primarily due to a decrease in the license amortization expense. In 2019, we prepaid our intangible assets — license to related parties, which resulted in $43.0 million of amortization — intangible assets — license, related parties, whereas in 2020, we recognized $13.0 million of amortization — intangible assets — license, related parties. The amortization — intangible assets — license, related parties period-over-period decreased the non-cash reconciling items adjustment by $30 million. We also sold our membership interest in Pound Sand, LLC on December 30, 2020, which resulted in a gain on sale of membership interest by $4.9 million.

Non-cash reconciling items were $3.4 million and $6.4 million for the six months ended June 30, 2022 and 2021, respectively, representing a decrease of $3.0 million. The decrease in the non-cash reconciling items was primarily due to a decrease of $3.0 million in amortization that was the result of an impairment loss recognized at the end of fiscal year 2021.

The decrease in our net operating assets and liabilities between 2021 and 2020 of $29.8 million was primarily the result of a decrease in deferred revenue of $21.4 million in 2021 due to recognizing revenue for performance obligations met during 2021, a decrease of accrued expenses by $10.2 million as a result of paying our accrued litigation balance in 2021, and an increase in prepaid expenses of $2.6 million primarily driven by the timing of payments of federal and state taxes and development costs, partially offset by a decrease in accounts payable by $3.6 million driven by our growth and the timing of payments to our vendors, an increase in other noncurrent assets by $2.1 million, and a net increase in accounts receivable and accounts receivable — related party of $0.8 million due to the timing of receipts of payments from customers and related party.

The change in our net operating assets and liabilities in 2020 and 2019 was primarily the result of a net decrease in accounts receivable and accounts receivable — related party of $6.8 million due to the timing of receipts of payments from customers and related party, a decrease in prepaid expenses of $7.1 million primarily driven by the timing of payments of federal and state taxes and development costs, and a decrease in deferred revenue of $12.4 million due to the revenue recognized due to performance obligations being met during 2020. These decreases were offset by an increase in accounts payable by $4.9 million driven by our growth and the timing of payments to our vendors, and an increase of $5.7 million in accrued expenses primarily as a result of our estimate of a pending litigation settlement.

The decrease in our net operating assets and liabilities between the six months ended June 30, 2022 and 2021 of $4.9 million was primarily the result of a net decrease in accounts receivables and accounts receivable — related party of $6.4 million due to timing of receipts and payments from customers and related party, a net decrease in prepaid expenses related party and prepaid expenses and other current assets of $2.2 million primarily driven by timing of payments of federal and state taxes and development costs, partially offset by an increase in deferred revenue of $2.2 million and an increase in accounts payable of $2.4 million.

Our accounts receivable — related party represent revenues attributable to certain mobile games that, for administrative reasons, were collected on our behalf by SDE. SDE no longer collects such payments on our behalf; all such payments are received directly from the platforms through which we offer the relevant games. As of June 30, 2022 and December 31, 2021, the net outstanding balance of receivables due from SDE was $10.9 million and $8.4 million, respectively. We expect accounts receivables owed to us by SDE will be repaid within a commercially reasonable period of time. In the event we do not receive timely remittance from SDE, we may hold back amounts owed to SDE from future licensing costs payable to SDE pursuant to our existing contractual relationship. See Note 5, “Accounts Receivable — Related Party” to our unaudited condensed consolidated financial statements included in this prospectus.

Investing activities

Cash used in investing activities for the year ended December 31, 2021 increased $17.7 million compared to the year ended December 31, 2020 due to the receipt of $7.0 million proceeds from the sale of Pound Sand,

LLC in 2020, an increase in the principal amount of the Shi Loan (as defined below) in the amount of $5.5 million and the acquisition of license rights relating to the release of *Genesis II* of $5.0 million in 2021.

Cash used in investing activities for the year ended December 31, 2020 decreased $13.8 million compared to the year ended December 31, 2019 due to the proceeds received from the 2020 sale of membership interest in the amount of $7.0 million of Pound Sand, LLC versus the payment of $5.0 million in 2019 in connection with the acquisition of license rights from a related party.

Cash provided by investing activities for the six months ended June 30, 2022 increased $22.1 million compared to the six months ended June 30, 2021 due to payments for the acquisition of license rights relating to the release of Genesis II of $5.0 million in 2021, the additional funding of a shareholder loan of $15.6 million in 2021 and the receipt by the Company of $1.5 million on the Pound Sand note in 2022.

Financing activities

Net cash flows provided by financing activities for the year ended December 31, 2021 was $2.6 million compared to net cash flows used in financing activities of $7.6 million for the year ended December 31, 2020. Financing activities for the year ended December 31, 2021 included $9.5 million of borrowings under our Revolver and Term Loan, which was partially offset by repayments on our Term Loan in the amount of $6.8 million.

Net cash flows used in financing activities for the year ended December 31, 2020 decreased $22.4 million compared to the year ended December 31, 2019. Financing activities for the year ended December 31, 2020 included borrowings under our Term Loan in the amount of $5.0 million, and the repayment of our Term Loan, line of credit and Revolver in the amount of $13.3 million. In 2020, financing activities also included the proceeds from the PPP in the amount of $0.8 million. Financing activities for the year ended December 31, 2019 included repayment of our Term Loan in the amount of $24.9 million and the repayment of a loan from a related party in the amount of $7.0 million, which was offset by incurring additional borrowings under our Term Loan and borrowings from a related party in the amount of $0.6 million and $1.3 million, respectively.

Net cash flows used in financing activities for the six months ended June 30, 2022 was $0.4 million compared to net cash flows provided by financing activities of $2.7 million for the six months ended June 30, 2021. Financing activities for the six months ended June 30, 2022 included $10.0 million in borrowings on a short term note which was offset by $8.2 million in cash dividends that was declared and paid during the period and $2.0 million of repayments on the Company's short term note. Financing activities for the six months ended June 30, 2021 included $3.0 million in borrowings under our Term Loan and $6.5 million in borrowings on our revolving loan which was partially offset by $6.8 million in repayments on long term debt.

Loans to related parties

Snail Games USA had been party to a line of credit note with Mr. Shi, our Founder and Chairman, which provides for loans to Mr. Shi up to a maximum aggregate principal amount of $100.0 million (the "Shi Loan"). Interest accrues on outstanding amounts at a rate of 2.00% per year, and all outstanding amounts are due and payable on demand. As of December 31, 2021, outstanding borrowings (including interest receivable) under the line of credit amounted to $94.4 million. In April 2022, Snail Games USA distributed the Shi Loan to Suzhou Snail, which assumed the loan as creditor. At the time of the distribution, $94.9 million was outstanding, including interest. As a result of this distribution, the total withholding taxes amounted to $8.2 million, which amount was distributed to Suzhou Snail in connection with the distribution of the Shi Loan and subsequently paid on April 29, 2022. As of April 2022, as a result of the distribution, the Shi Loan is no longer reflected on our consolidated balance sheet.

Capital resources

We primarily fund our operations from our net cash flows provided by operating activities. In addition to these cash flows, we have entered into certain debt arrangements to provide additional liquidity and to finance our operations.

Revolving Loan

In December 2018, we entered into a revolving loan and security agreement with a financial institution for a revolving note in the amount of $5.5 million. On June 17, 2021, we amended and restated our revolving loan and security agreement (the "Revolver") to increase our revolving line of credit to $9.0 million. As amended, the Revolver matures on December 31, 2023 and bears interest at a rate equal to the prime rate less 0.25%. Interest is due and payable under the Revolver on a monthly basis, and borrowings under the revolver are secured by certain deposit accounts. The revolver is secured by the certificate of deposit accounts held with the financial institution, and reported as restricted cash, in the amounts of $5.3 million and $5.2 million as of June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022 and December 31, 2021, we had borrowings of $9.0 million outstanding under our Revolver.

Term Loan

In June 2021, we entered into a loan agreement with a financial institution providing for a term loan in an aggregate principal amount of $3.0 million. The Term Loan, which matures in June 2031, bears interest at a fixed rate of 3.5% for the five years and then at a floating rate of the Wall Street Journal prime rate until maturity. The Term Loan is secured by our principal headquarters. The Term Loan replaced and refinanced a previously outstanding $3.0 million promissory note due September 2021.

In January 2022, we amended and restated our Revolver and we executed a promissory note to obtain an additional long-term loan with a principal balance of $10.0 million which matures on January 26, 2023 (the "New Term Loan"). Interest is equal to the higher of 3.75% and the Wall Street Journal prime rate plus 0.50%. The New Term Loan is secured and collateralized by our existing assets.

As of June 30, 2022, we had borrowings of $7.9 million outstanding under the New Term Loan.

Cares Act PPP Loan

In 2020, we applied for, and received, funds under the PPP in the amount of $0.8 million. In December 2020, $0.1 million of the PPP loan was forgiven by the SBA. In March 2021, an additional $0.4 million principal amount of the PPP loan balance was forgiven by the SBA. As of April 2022, all outstanding amounts under the PPP loan have either been repaid or forgiven.

Financial covenants

The Revolver, Term Loan and the New Term Loan require us to maintain quarterly minimum EBITDA of $3.0 million and to satisfy certain financial maintenance ratios, including a current ratio of 1.5 to 1.0, and minimum service coverage ratio of 1.5 to 1.0. We failed to satisfy the minimum coverage ratio for the period ended December 31, 2020 and obtained a waiver from our lenders for such breach. We were in compliance with all covenants under our debt facilities as of June 30, 2022 and December 31, 2021.

For additional information regarding our indebtedness, see Note 16, "Debt," Note 17, "Revolver Loan," and Note 18, "Long-term Debt," to our consolidated financial statements included in this prospectus and Note 15, "Revolving Loan, Short Term Note and Long-Term Debt" to our unaudited condensed consolidated financial statement included in this prospectus.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2021 (in millions):

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Operating lease obligations	$ 6.6	$1.9	$4.7	$0.0	$0.0
Debt	$12.0[1]	$0.1	$9.2	$0.2	$2.5
Accrued litigation expense	$ 1.3	$1.3	$0.0	$0.0	$0.0

(1) Excludes PPP loan forgiven in 2022.

Off-Balance Sheet Arrangements

As of June 30, 2022 and December 31, 2021, we did not have any off-balance sheet arrangements, as defined in Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, revenue, expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors.

Qualitative and Quantitative Factors about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate risk and investment risk as follows:

Interest rate risk

Our exposures to market risk for changes in interest rates relate primarily to our New Term Loan, Term Loan, Revolver and the 2020 Promissory Notes. Our New Term Loan, Revolver Loan and the 2020 Promissory Notes are floating rate facilities. Therefore, fluctuations in interest rates will impact the amount of interest expense we incur and have to pay. A hypothetical 100 basis point increase in weighted average interest rates under our 2020 Promissory Note and Revolver would have an immaterial impact on our overall interest expense. At this time, we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our interest rate risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Investment risk

We had cash and cash equivalents including restricted cash and cash equivalents totaling $21.1 million and $16.6 million as of June 30, 2022 and December 31, 2021, respectively, of which $6.4 million is restricted and is used as security for certain of our debt instruments and to secure standby letters of credit with certain of our landlords. Our investment policy and strategy primarily attempts to preserve capital and meet liquidity requirements without significantly increasing risk. Our cash and cash equivalents primarily consist of cash deposits and money market funds. We do not enter into investments for trading or speculative purposes. Changes in rates would primarily impact interest income due to the relatively short-term nature of our investments. A hypothetical 100 basis point change in interest rates would have increased or decreased our interest income by an immaterial amount.

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with GAAP.

Certain accounting policies require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments will be subject to an inherent degree of uncertainty. Our judgments are based upon our management's historical experience, terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate.

We consider accounting estimates to be critical accounting policies when:

- the estimates involve matters that are highly uncertain at the time the accounting estimate is made; and
- different estimates or changes to estimates could have a material impact on the reported financial positions, changes in financial position or results of operations.

When more than one accounting principle, or method of its application, is generally accepted, we select the principle or method that we consider to be the most appropriate when given the specific circumstances. The application of these accounting principles requires us to make estimates about the future resolution of

existing uncertainties. Due to the inherent uncertainty involving estimates, actual results reported in the future may differ from such estimates. For additional information on our significant accounting policies, please refer to Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in this prospectus.

Revenue recognition

The Company's revenue includes the publishing of software games delivered digitally and through physical discs (e.g., packaged goods). The Company's digital games may include additional DLCs that are new feature releases to digital full-game downloads. Revenue also includes sales of mobile in-app purchases that require our hosting support in order to utilize the game or related content. Such games include virtual goods that can be purchased by the end users as desired. When control of the promised products and services is transferred to the customers, the Company recognizes revenue in the amount that reflects the consideration it expects to receive in exchange for these products and services. Revenue from delivery of products is recognized at a point in time when the end consumers download the games and the control of the license is transferred to them.

The Company recognizes revenue using the following five steps as provided by Accounting Standards Codification, or ASC, Topic 606 *Revenue from Contracts with Customers*: (1) identify the contract(s) with the customer; identify the performance obligations in each contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when, or as the entity satisfies a performance obligation. The Company's terms and conditions vary by customers, and typically provide net 30-to-75 day terms or 45 days after each quarter ends.

Principal vs. Agent Consideration

The Company offers certain software products via third-party digital storefronts, such as Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store, the Apple App Store, the Google Play Store, and retail distributors. For sales of our software products via third-party digital storefronts and retail distributor, we determine whether or not we are acting as the principal in the sale to the end user, which we consider in determining if revenue should be reported based on the gross transaction price to the end user or based on the transaction price net of fees retained by the third-party digital storefront. An entity is the principal if it controls a good or service before it is transferred to the customer. Key indicators that we use in evaluating these sales transactions include, but are not limited to, the following:

- the underlying contract terms and conditions between the various parties to the transaction;
- which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- which party has discretion in establishing the price for the specified good or service.

Based on our evaluation of the above indicators, for sales arrangements via Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store and certain retail distributors, the digital platforms and distributors have discretion in establishing the price for the specified good or service, and we have determined we are the agent in the sales transaction to the end user and therefore we report revenue on a net basis based on the consideration received from the digital storefront. For sales arrangements via the Apple App Store and the Google Play Store, we have discretion in establishing the price for the specified good or service and we have determined that we are the principal to the end user and thus report revenue on a gross basis and mobile platform fees charged by these digital storefronts are expensed as incurred and reported within cost of revenue.

Contract Balance

The Company records deferred revenue when cash payments are received or due in advance of its performance, even if amounts are refundable.

Deferred revenue is comprised of the transaction price allocable to the Company's performance obligation on technical support and the sale of virtual goods available for in-app purchases, and payments

received from customers prior to launching the games on the platforms. The Company categorizes the virtual goods as either "consumable" or "durable." Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, the Company recognizes revenue from the sale of consumable virtual goods as the goods are consumed and the performance obligation is satisfied. Durable virtual goods represent goods that are accessible to the players over an extended period of time; accordingly, the Company recognizes revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player and the performance obligation is satisfied, which is generally the estimated service period.

The Company also has a long-term title license agreement ("game pass") with Microsoft for a period of three years. The Company recognizes deferred revenue and amortizes this revenue according to the terms of the relevant agreement. The agreement was initially made between the parties in November 2018 and valid through December 31, 2021. The agreement was subsequently amended in June 2020 to extend the *ARK* 1 game pass perpetually effective January 1, 2022 and to put *ARK* 2 on game pass for three years upon release.

Estimated Service Period

For certain performance obligations satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products ("user life") which most faithfully depicts the timing of satisfying our performance obligation. We consider a variety of data points when determining and subsequently reassessing the estimated service period for players of our software products. Primarily, we review the weighted average number of days between players' first and last days played online. When a new game is launched and no history of online player data is available, we consider other factors to determine the user life, such as the estimated service period of other games actively being sold with similar characteristics. We also consider known online trends, the service periods of our previously released software products, and, to the extent publicly available, the service periods of our competitors' software products that are similar in nature to ours. We believe this provides a reasonable depiction of the use of games by our customers, as it is the best representation of the period during which our customers play our software products. Determining the estimated service period is subjective and requires significant management judgment and estimates. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for virtual goods are generally approximately 30 to 100 days.

Significant Estimates

Significant management judgment and estimates must be used in connection with many of the determinations described above, such as estimating the fair value allocation to distinct and separable performance obligations and the service period over which to defer recognition of revenue. We believe we can make reliable estimates. However, actual results may differ from initial estimates due to changes in circumstances, market conditions, and assumptions. Adjustments to estimates are recorded in the period in which they become known.

Shipping and Handling

The distributor, as the principal, is responsible for the shipping of the game discs to the retail stores and incurring the shipping costs. We are paid the net sales amount after deducting shipping costs and other related expenses by the distributor.

Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consisted of taxes currently due and deferred taxes. Deferred taxes are recognized for the differences between the basis of assets and liabilities for financial statements and income tax purposes.

Financial Accounting Standards Board, or FASB, ASC 740, Income Taxes, which we follow, requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FASB ASC 740-10-25 provides criteria for the recognition, measurement, presentation, and disclosure of uncertain tax positions. We must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. We recognized liabilities for uncertain tax positions pursuant to FASB ASC 740-10-25 in the amount of $0.7 million, $1.1 million and $0.4 million for the years ended December 31, 2021, 2020 and 2019, respectively and the Company did not have any uncertain tax positions to recognize liabilities on for the six months ended June 30, 2022 or 2021.

Intangible assets — license usage rights

We enter into license agreements with third-party developers and our related parties' developers that require us to make payments for license usage rights and game development and production services. These license agreements grant us the exclusive publishing and distribution rights to game titles as well as, in some cases, the underlying intellectual property rights. These license agreements also specify the payment schedules, royalty rates and the relevant licensing period. We capitalize the cost of license usage rights, which we determined based on the respective contracted amounts that we paid in cash, as intangible assets and amortizes them over the terms of the respective licensing rights.

Amortizable Intangibles and other long-lived assets

Our long-lived assets and other assets consisting of property, plant and equipment and purchased intangible assets, are reviewed for impairment in accordance with the guidance of the FASB ASC 360, Property, Plant, and Equipment.

Intangible assets subject to amortization are carried at cost less accumulated amortization and amortized over the estimated useful life in proportion to the economic benefits received. We evaluate the recoverability of definite-lived intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. We consider certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in our business strategy. If we determine that the carrying value may not be recoverable, we estimate the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. There can be no assurance, however, that market conditions will not change or demand for our products under development will continue. Either of these could result in future impairment of long-lived assets. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our consolidated reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Leases

We have several leases relating primarily to office facilities. We determine if an arrangement is or contains a lease at contract inception. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. The lease liability is measured as the present value of the unpaid lease payments, and the right-of-use asset

value is derived from the calculation of the lease liability. Lease payments include fixed and in-substance fixed payments, variable payments based on an index or rate, reasonably certain purchase options, and termination penalties. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets. We use our estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments because we do not have the information necessary to determine the rate implicit in the lease.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Our lease term includes any option to extend the lease when it is reasonably certain to be exercised based on considering all relevant factors. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and we recognize lease expense for these leases on a straight-line basis over the lease term. Operating leases are included in operating lease right-of-use assets, net, current portion of operating lease liabilities, and operating lease liabilities, net of current portion on the consolidated balance sheets.

Recently Issued Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in this prospectus for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of the date of this prospectus.

Material Weaknesses in Internal Controls

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

In connection with the audit of our consolidated financial statements for the years ended December 31, 2020 and 2019, our management and auditors determined that a material weakness existed in the internal control over financial reporting involving lack of sufficient financial reporting close controls and review of account reconciliations and income tax accounts. Subsequently, we have remediated this material weakness. Our auditors identified numerous audit adjustment during the course of our 2020 and 2019 audits, the aggregate value of which are considered material to the consolidated financial statements. We intend to enhance our close control procedures and hire additional subject matter experts. See "Risk Factors — General Risk Factors — If we fail to maintain effective internal control over financial reporting, as well as required disclosure controls and procedures, our ability to produce timely and accurate consolidated financial statements or comply with applicable regulations could be impaired."

BUSINESS

Our mission is to provide high-quality entertainment experiences to audiences around the world.

We are a leading, global independent developer and publisher of interactive digital entertainment for consumers around the world. We have built a premier portfolio of premium games designed for use on a variety of platforms, including consoles, PCs, and mobile devices. For four of the last six years ended December 31, 2021, most recently in 2020, *ARK: Survival Evolved* was a top-25 seller on the Steam platform across all game genres. Our expertise in technology, in-game ecosystems and monetization of online multiplayer games has enabled us to assemble a broad portfolio of intellectual property across multiple media formats and technology platforms. Our flagship franchise from which we generate the substantial majority of our revenues, *ARK: Survival Evolved*, is a leader within the sandbox survival genre with over 76.5 million console and PC installs, which include 38.4 million installs from free promotions, through June 2022. For the six months ended June 30, 2022, *ARK: Survival Evolved* averaged a total of 395,150 daily active users ("DAUs") on the Steam and Epic platforms, and we experienced a peak of approximately 755,000 DAUs in June 2020. We define ''daily active users'' as the number of unique users who play any given game on any given day. For the years ended December 31, 2021, 2020 and 2019, we generated 90.7%, 89.5% and 80.5%, respectively, of our revenues from *ARK: Survival Evolved*.

According to Newzoo, from 2021 to 2025, the global gaming industry is expected to grow approximately 17% from $192.7 billion in 2021 to $225.7 billion in 2025. In 2021, the global gaming market sales represented approximately 27% larger than the combined revenue generated by the global music, cinema and OTT markets, according to Newzoo and PwC. The shift towards online game play along with in-game monetization and new platforms have fundamentally transformed the way consumers interact with video games. Moreover, digital distribution has democratized developer access, leading to an expansion of new titles to address consumer preferences. At Snail, we focus on building compelling interactive entertainment franchises, with an aim of ultimately creating a world-class metaverse driven by player-created content. We believe success in delivering a highly engaging consumer experience results from a combination of best-in-class creativity and innovative use of leading, cutting-edge technology and platforms.

Our roots trace back to the beginnings of the massively multiplayer online role-playing games ("MMORPG"), with early titles including *Age of Wushu*. Our long history provides us with substantial experience that we leverage to identify and invest in promising game development studios and to manage the growth of our games into AAA titles. We collaborate with talented development teams, providing our expertise, capital, technological resources, customer service, marketing strategy and other services to achieve a successful outcome.

We optimize our development pipeline and target specific market segments by publishing games under several specialized brands through our two publishing labels, Snail Games USA and Wandering Wizard. Our distribution strategy utilizes Steam's early access feature to achieve faster go-to-market times. We utilize proprietary technology, including a versatile game engine and advanced server technology, to heighten artistic detail and increase player engagement.

We attribute our continued success to several differentiating elements.

Perseverance: We are called Snail because we admire a snail's perseverance in achieving its goals. We maintain a disciplined approach to our game development, financial management and strategic acquisitions as we seek to deliver long-term value.

Innovation: We believe innovation is at the core of a highly engaging entertainment experience. Our titles span from indie to our AAA franchise *ARK: Survival Evolved*. We created the Wandering Wizard label to allow us to invest and grow indie titles built by bright, passionate teams.

Technology: We utilize advanced and proprietary technologies to drive demand and optimize costs. Our proprietary micro-influencer platform, *NOIZ*, enables us to substantially broaden our influencer base at an advantaged cost, and our game and server technology provide a highly customizable development infrastructure.

Collaboration: We partner with talented independent studios for game development. Development teams, some of which are our wholly owned subsidiaries, are provided capital and other critical resources

and are afforded a high degree of autonomy. We believe this model best preserves the culture and creativity of the development team and encourages the development of successful games.

Developers: We believe in the importance of maintaining a broad developer network to ensure the simultaneous development of high-quality games. We have seven internal development studios and we partner with two related-party development studios from AAA to indie located in the United States and internationally.

Experience: Our management team has deep knowledge of the gaming landscape based on more than two decades of experience in the gaming industry. Our Founder and Chairman, Mr. Shi, was a pioneer in sandbox and MMORPG games, and our Chief Executive Officer, Jim Tsai, has a deep understanding of game development and publishing with more than 25 years of experience. Our industry experience is foundational to our success in development and publishing and helps us to quickly identify attractive acquisitions and partnerships opportunities.

Our dedication to provide audiences with high-quality entertainment experiences utilizing the latest gaming technology has produced strong user engagement, continued revenue growth, and increased cash flows. Through June 30, 2022, our *ARK* franchise game has been played for more than 2.8 billion hours with an average playing time per user of more than 158 hours and with the top 20% of all players spending over 100 hours in the game, according to data related to the Steam platform. For the years ended December 31, 2021, 2020 and 2019, our net revenue was $106.7 million, $124.9 million and $86.3 million, respectively, representing a compound annual growth rate of 11.2%. We have maintained a diversified revenue base across platforms, with approximately 44% of fiscal year 2021 revenue from consoles, 40% from PC and 12% from mobile platforms. We had net income of $7.9 million for the year ended December 31, 2021 as compared to net income of $29.8 million for the year ended December 31, 2020 and net loss of $(15.2) million for the year ended December 31, 2019.

Our Heritage and Expertise

Snail Games USA was founded in 2009 as a subsidiary of Suzhou Snail Digital Technology Co. Ltd. (“Suzhou Snail”), and our heritage and knowledge extends to our Founder and Chairman’s creation of Suzhou Snail. Suzhou Snail was founded in the early 2000s to fulfill a need for gaming in Asia. Our Founder and Chairman, Mr. Shi, became an early adopter of PC-based online free-to-play gaming, and Suzhou Snail became a pioneer in MMORPG games, releasing successful titles such as *Age of Wushu*.

The global gaming industry transformed in the mid-2000s with the advent of smartphones and the creation of digital distribution. Amid these transformations, we were founded with an initial goal of serving as the publisher for Suzhou Snail’s games in the United States. We rapidly transformed our business model to include development and publishing of independently sourced content. We pursued a premium game strategy anchored by diversified development teams. We have invested in video game development and publishing throughout North America and Europe, and have engaged in licensing deals with affiliated studios. In 2015, we partnered with Studio Wildcard to develop our flagship franchise, *ARK*. In 2022, Suzhou Snail effected a spin-off and Snail Games USA became an independent entity. Our heritage in free-to-play games and operating history in premium games has afforded us with deep knowledge of the global gaming marketplace and has enabled us to develop a successful value proposition for our consumers and developers.

Market Opportunity

We serve a large addressable market in a dynamic industry with strong growth tailwinds. Video games are rapidly growing as an entertainment platform on a global scale given the proliferation of mobile devices and numerous vectors of gaming experience. We are well positioned to capitalize on secular tailwinds as we own and/or maintain exclusive license rights to valuable IP that can be monetized through various channels across gaming and digital entertainment. We believe that our current market leadership in video games and growing presence in influencer platform through *NOIZ* is just our beginning.

From 2016 to 2021, the video game industry has grown at over 14% CAGR. According to Newzoo, the global gaming market was valued to be approximately $192.7 billion in 2021 and is projected to grow to $225.7 billion in 2025, representing a 4% CAGR as its popularity continues to flourish mainstream. In 2021,

there were over one billion console and PC (excluding mobile) gamers worldwide, according to IDC. According to the State of Online Gaming — 2021 survey of 4,000 gamers, the average player spent over eight hours per week playing video games. More than 75% of gamers are age 21 or older, and the vast majority of gamers are medium-to-high earners with full-time jobs, according to Newzoo. The combination of these statistics illustrates a quickly growing market with a highly engaged target demographic with purchasing power towards entertainment.

Within the video game industry, the top console game franchises continue to dominate the market. The barrier to entry is high as most require high investment in development and user acquisition costs. According to Newzoo, the console and PC gaming segment of the global games industry is estimated to account for 47% of the total market in 2022. From 2021 to 2022, the player base increased at an impressive rate of 4.6%, and additional future growth is expected.

The sandbox survival category is an attractive genre within gaming because it is truly "one-size-fits-all." Its appeal is broad as there are no rules, and no endgame, and players are in control of their own game lifecycle. Players enter into the gameplay without a tutorial and as a result face a more challenging environment and can learn and thrive in the experience of their own choosing.

We have developed and invested in various successful sandbox survival titles since 2015. Our video game production quality, our history of franchise success, and our technological leadership have contributed to a deeply engaged, global player community, many members of which continue to purchase DLCs for our existing games and related games published under our brand or co-brands. We also offer the advantage of providing equal accessibility to gamers of all experience levels and demographics for our sandbox survival games, allowing us to maximize audience reach. Furthermore, depending on players' experience and intensity, our platform gives players the flexibility to play on our servers, user-created servers, or private servers, which allows us to target a wider range of gamers and lower operating expenses.

In addition to gaming, we believe there are several adjacent market opportunities driven by the proliferation of streaming and eSports: the global eSports audience is projected to reach 532 million viewers and surpass $1.4 billion in revenue in 2022 according to Newzoo. In 2021, global gamers and eSports fans watched a record-breaking 27.9 billion hours of content across all live streaming platforms, according to Tech Digest. Twitch led the audience in live broadcast, with approximately 18.4 billion hours watched in 2021. We launched our *NOIZ* platform to support and provide tools for streamers, as well as marketing campaigns services. We believe that the survival-based genre is well suited for eSports and team-based interactive offerings.

According to Influencer Marketing Hub, the market size of influencer marketing has grown at 55% CAGR from 2016 to 2020, reaching $9.7 billion in 2020, and provides attractive tailwinds for our micro-influencer platform, *NOIZ*.

Our Value Proposition

Value proposition for gamers: We aim to provide high-quality entertainment experience to end users. We strive to create the best game play experience for gamers by offering frequent new content and endless game play possibility as key value propositions to our players.

New Content: We continuously incorporate feedback from players to improve existing games and build expansion packs, which are released periodically. DLCs offer gamers a familiar game play in a new virtual world with a different fantasy twist from Dinosaurs to Sci-Fi.

Endless Possibility: Our games provide hours of entertainment with features that permit dynamic environmental changes of the virtual world, user directed conquests, and cooperative or competitive gameplay with other users. Our sandbox games provide players with freedom, without the rules found in other genres such as racing games.

Value proposition for developers: Our business model is dependent on partnerships with developers, and we offer key value propositions of collaborative partnership, culture of innovation and technology to our developers.

Collaborative Partnership: We provide capital, technological resources, customer service, marketing strategy and other services to our video game development partners. We strategize with developers to customize marketing campaigns tailored to target markets. Our founder also provides developers with creative and other advice based on his deep expertise in the industry.

Culture of Innovation: We believe high-quality experiences result from a combination of forward thinking and fearless creativity. We encourage our development teams to experiment with emerging technologies and unique fantasy twists.

Technology: Our developers have access to our advanced development infrastructure as well as our proprietary technology including our micro-influencer technology, *NOIZ*, which helps brands engage with previously untapped small- to mid-sized influencers.

Our Platform

Our strategic flywheel is anchored by our dedication to delivering high-quality, compelling entertainment experiences and is driven by our capabilities in publishing, developing and creating proprietary technology. Growth in the number of published titles allows us to invest in new development teams and proprietary technology, which expand the number of titles we publish in a self-reinforcing loop. As the quality of our games increases, we are well-positioned to attract more users and more influencers. With increased influencers through our propriety micro-influencer platform, *NOIZ,* we are able to reach a broader audience and increase user engagement within our games. This drives additional revenue, which we use to increase our developer network and to build proprietary technology. Our technology, along with our collaborative, innovative culture attracts talented developers, which in turn result in an increased number of high-quality games.

Publishing: We derive the majority of our revenue from titles we offer through licensing and publishing agreements. Our *ARK* franchise is led by our strategic partnership with Studio Wildcard. Our typical publishing cycle includes annual DLC releases for our major franchises, after which we repeat the same publishing cycle to attract new players and continue to entertain our existing players. We seek to bring new fantasy twists and genres to our players with innovative, creative content cultivated from strong partnerships with independent developers and published through our Wandering Wizard label.

Development: We also develop titles using a partnership approach in which we acquire ownership stakes in independent development teams. We preserve a development team's culture by allowing a high degree of autonomy in its operations, which we believe allows development teams to retain their creative license, while also extracting synergies by utilizing our shared resources including customer service and backend functions. Furthermore, we foster a culture of communication where employees at all levels at our partner studios are able to receive direct feedback from our CEO. We partnered with Donkey Crew to produce

Last Oasis, a nomadic survival MMO with melee combat conquests, and with BTBX.io to produce *Life is Feudal II*, a sandbox survival game set in medieval times.

Technology: We are early adopters of the latest technology in our games and develop proprietary technology when necessary to address market opportunities. We maintain a flexible infrastructure to efficiently develop virtual worlds with advanced rendering and atmospheric effects across a wide array of video game types. We developed a proprietary micro-influencer marketing platform, *NOIZ*, to help game streamers and game companies reach a wider audience and diversify marketing spend. We work with our developers to create custom campaigns to optimize reach.

Our Key Strengths

Top-ranked category defining franchise with a track record of growth: Our dedication to our customers and innovative game development has resulted in our position as a top-ranked category defining franchise, with a track record of growth. Our flagship franchise, *ARK: Survival Evolved*, is a leader within the sandbox survival genre with over 76.5 million console and PC installs through June 2022. *ARK: Survival Evolved* has been a top-25 selling game on the Steam platform by gross revenue in each year we released an *ARK* DLC. As of June 2022, *ARK: Survival Evolved* reached a peak average audience of over 755,000 DAUs on PC platforms, and has been played over 2.8 billion hours since its release.

Proven expertise in creating successful gaming franchises: We have proven expertise in creating successful gaming franchises. We are a multi-platform publisher with over 12 years of experience in creating culturally influential game titles, while demonstrating financial growth. As of December 31, 2021, we had more than 20 game titles. By recognizing the lucrative potential of the sandbox survival category at its nascent stages, we became a first mover in the category, and we now license and publish leading IP or license to the IP, including the global franchise *ARK: Survival Evolved*, *Atlas*, *Last Oasis*, *Dark and Light* and *Outlaws of the Old West*. Our approach to the industry is to create a one-size-fits-all game to draw people into the overall sandbox survival genre. In order to retain players, we invest in game quality to generate additional interest in addition to spending on advertising. Our collaborative relationships with video game development studios, industry leaders, technology providers and distribution platforms allow us to invest in promising video game projects and manage their growth into AAA video games and entertainment franchises. Our approach creates a continuous cycle of monetization opportunities across our gaming portfolio.

IP portfolio spanning across multiple media formats and technology platforms to captivate end user: We license and own an IP portfolio spanning across multiple media formats and technology platforms to captivate end users. Our primary use of IP is to generate successful video games within and beyond the sandbox survival genre. Currently, our games are available on Xbox Live and Game Pass, PlayStation Network, Steam, Epic Games Store, Google Stadia, the Apple App Store, the Google Play Store and the Amazon Appstore, as well as through traditional retail channels. However, our vision for our valuable IP rights extend far beyond just gaming: our vision extends into media formats such as animation, TV, movies, eSports, and reality TV and interactive media, which we believe has tremendous potential. We have high aspirations across digital media and are poised to enter the animation and television industry with the *ARK, the Animated Series* in 2022.

Collaborative development process between developers and management: We continue to evolve with the industry with our deep pipeline of leading video game franchises such as *ARK: Survival Evolved*, *Atlas*, *Last Oasis*, *Dark and Light* and *Outlaws of the Old West*. Our success in game development and in keeping up with industry trends is partially attributed to our collaborative relationships with video game development studios, industry leaders, technology providers and distribution platforms. Our cooperative development process provides for a proprietary scalable model to publish multiple AAA video games based on current trends. We are proud of our collaborative relationship with our developers, as we believe it is truly unique in our industry and one of our main differentiators. We offer developers an ecosystem that aligns incentives and creates an environment for creativity to thrive. In addition to wonderful ideas for games, we value partners who share our vision and culture. After a partnership is formed, we offer developers a direct line of communication to Mr. Shi, our Founder and Chairman, who is viewed as a pioneer in the video game industry and business world. We offer developers freedom by giving them access to the wide breadth of the Snail platform and resources so they can do what they do best: create.

Innovative use and creation of next-gen technologies and platforms: We use innovative technology to serve our customers, allowing us to provide high-quality user experiences and services. Our proprietary video game technology includes a versatile game engine, development pipeline tools, advanced rendering technology and advanced server and network operations, although we also use currently accepted standard industry technologies. Additionally, our customizable development infrastructure provides a framework for efficiently developing all types of video game projects using advanced rendering technologies for realistic lighting, weather and atmospheric effects, for creating new types of virtual assets and for other effects that heighten artistic detail and increase player engagement. Since inception, we have been developing our proprietary engine, Flexi. Unlike mainstream commercial engines, we are developing Flexi to allow us to save on royalty costs and retain ownership of our modifications to engines. We are currently creating an AAA game fully utilizing the Flexi engine to display its incredible capabilities. Most commercial engines are designed for single session games and small number of concurrent players in a specific geo location. Our goal with Flexi, however, is to have the capability to handle a greater number of players in a particular area, which can be utilized for larger games with robust user interactions. Our micro-influencer business, *NOIZ*, strives to build an influencer marketing platform for brands to directly engage with small to-midsized influencers, through which influencers can reach millions of video game consumers and generate additional revenue at a cost advantage.

Robust financial profile combined with proven track-record of capital efficiency and growth: We have a robust financial profile, combined with a proven track-record of capital efficiency and growth. Between 2019 and 2021, our net revenue grew by 23.7%, representing a compound annual growth rate of 11.2%. Our net loss of $(15.2) million in 2019 grew to a net income of $29.8 million in 2020 and was $7.9 million in 2021. Meanwhile, our Adjusted EBITDA grew from $(15.1) million in 2019 to $39.2 million in 2020 and was $25.5 million in 2021. We are focused on an organic growth strategy in our already successful video gaming business, but also on leveraging the same IP across multiples vectors of digital entertainment and technology.

Visionary management team well versed in industry and business: We attribute much of our success to our visionary senior management and business development teams, which have a deep understanding of games and global video markets and aim to build innovative products for gamers. Our Founder and Chairman, Mr. Shi, is also the founder and Chief Executive Officer of Suzhou Snail and is a pioneer in the video game industry and the sandbox survival genre. Mr. Shi is responsible for our overall vision, which has included adapting our business model for the global markets, focusing on premium games and investing in video game development and publishing in North America and Europe. Our Chief Executive Officer, Jim Tsai, has 25 years of experience developing and publishing video games in both Asia and the United States. Our founder and other members of our management and business development teams are seasoned gamers, who lead and provide insight into gaming development from a first-hand user's perspective. We operate in an ecosystem in which our leaders employ a hands-on approach, as each developer is able to get direct contact with our founder and receive one-on-one feedback and mentorship.

Our Growth Strategy

Continue to grow our successful* ARK*: Survival Evolved* *franchise: As one of the most creative and innovative companies in our industry, our primary strategy is to capitalize on our franchise and focus on delivering unique games and content, offering services that extend and enhance the experience, and connecting more players across more platforms. We believe the breadth and depth of our multi-platform, services offerings, and our use of multiple business models and distribution channels provide us with strategic advantages. We have established ourselves as a market leader and will continue to enhance our market-leading gaming franchises including *ARK: Survival Evolved*, *Atlas*, *Last Oasis*, *Dark and Light* and *Outlaws of the Old West*. We focus on publishing high-quality content, regularly updating our games after launch to encourage social interactions, adding new content and features, and improving monetization. For example, we have released five paid DLCs since the original release of *ARK: Survival Evolved* to support further growth in our *ARK* franchise.

Continue to build a strong pipeline of new content via Snail Games USA and our independent label, Wandering Wizard: Building on our strong established franchises and creating new franchises through compelling new content is at the core of our business. We are always seeking ways to expand our portfolio

of franchises, launching new intellectual property or rolling out innovative platform for gamers to remain engaged and have a unique experience. We endeavor to reach as many consumers as possible by offering our content on multiple platforms and delivering compelling experiences across multiple business models. Currently, we have five console and PC games under development that are expected to be released in the next five years. Our independent label, Wandering Wizard, allows us to publish independent games of different graphical quality and different genres at lower acquisition cost while utilizing our proven development and distribution strategies. Titles published under Wandering Wizard include *Outlaws of the Old West* and *Expedition Agartha*. In addition to spending on advertising, we invest in the research and development of new games as a form of marketing to increase our exposure. We believe that utilizing resources in this manner allows us to better leverage our areas of developmental expertise before launching a title. Each new game serves as an opportunity to market ourselves, expose audiences to the sandbox survival genre, engage with existing players, and monetize on our platform's full breadth of opportunities.

Continue to expand* NOIZ, *our micro-influencer marketing business, and use the platform to bolster our marketing initiatives and eCommerce revenue: We are focused on reaching more players whenever and wherever they want to play. We believe that we can add value to our network by utilizing content creators and micro-influencers to connect to a world of play by offering an interactive platform for players to engage in. We created our proprietary, full-service marketing platform, *NOIZ*, where we have direct relationships with influencers and save on third-party costs. *NOIZ* helps aspiring game streamers and game companies reach a wider audience, diversify marketing spend and income streams, and build their own brands easily and professionally at a large scale. Influencers can join the platform and play for free over a three day period. *NOIZ* provides speed and payment to influencers, in addition to speed in the execution of marketing campaigns since no large scale agencies are involved. *NOIZ* benefits all of our marketing and promotional initiatives and serves as a source of eCommerce revenue. *NOIZ* is designed so that clients can choose to work on campaigns on their own or directly with our creative campaign managers in an end-to-end managed campaign process, with 24/7 support, by paying a fee. The management team at *NOIZ* is comprised of eSports and gaming industry veterans and has worked with clients such as Square Enix, Sega, Stunlock Studios, Facebook, Sansar, TikTok, Bose, Softgiving, Omaze. *NOIZ* directly contributes to our video game growth because each influencers' interaction with our games to their followers is a sales opportunity. Micro- and macro-influencers have taken advantage of *NOIZ*'s unique program, through which they receive a portion of the revenue from the video games they help sell. Through *NOIZ*, we can also collect data used to analyze new trends and self-market our products.

Continue investing in new technologies and platforms to efficiently capitalize on emerging trends: We provide a variety of digitally delivered products and games that are played online and on mobile platforms, such as tablets and smartphones; as such, there are various opportunities for us to grow and enhance profitability. We will continue investing in new distribution channels such as medias of streaming, animation, television and eSports as opportunities in platform distribution as well as DLCs arise to expand our reach and grow our business. We invest in the development of interactive entertainment products for new distribution channels, which incorporate a new technology or business model that enables us to compete more effectively against our peers. For our future games, we ultimately aim to build a metaverse in which users can create their own gameplay content and interact in a virtual world with other players over a secured network. We intend to build our metaverse using our Flexi engine, which will allow for better data management and hosting of significantly more players per server. We intend to hold competitions where players can submit created content and receive rewards, with the potential of incorporation into a new map as DLC with the assistance of our development team.

Scale our operations through international market expansion and strategic acquisitions: In line with our growth strategy, we plan to complete acquisitions to expand our gaming offerings, obtain talent, and expand into new markets. We continue to evaluate strategic acquisition opportunities in areas such as studios, publishers, and agencies. We may also pursue joint ventures or establish subsidiaries with strategic partners as well as make investments in interactive gaming and entertainment business as part of our long-term business strategy. The global market for interactive entertainment continues to grow, and we seek to increase our presence internationally, particularly in South America, where video game demand is expected to increase as the region advances in technology. We have existing relationships and customers in South America and which we hope will continue to grow. We retain licensing rights to our intellectual properties in certain regions and intend to build on our existing licensing relationships and also continue to expand on license distribution

strategies to grow our international business. As a result, we are actively exploring international strategic opportunities that fit our needs and culture. We also intend to release a Spanish version of *NOIZ*, expand publishing in South America, increase public relations and game announcements in the region, and grow our number of Spanish translators. We also seek to expand our licensing opportunities to new platforms and other geographies. We are continuing to execute on our growth initiatives where our strategy is to broaden the distribution of our licensing opportunities. We intend to continue to build on our licensing relationships and also continue to expand on distribution strategies to grow our business. Furthermore, the growth and development of electronic commerce will enable us to explore more licensing opportunities across various geographic regions.

Our Games

ARK: Survival Evolved: Our flagship franchise, *ARK: Survival Evolved*, is an action-adventure survival sandbox game set in an open-world environment with a dynamic day-night cycle. Players must survive being stranded on an island filled with roaming dinosaurs and other prehistoric animals, natural hazards, and potentially hostile human players. The game, ranked #1 by market share within the sandbox survival genre, released to Early Access in June 2015 and to retail in August 2017. The game supports consoles (PS4, Xbox One, Xbox Series X/S, Nintendo Switch), PCs and mobile (Android, iOS). We developed *ARK* in partnership with Studio Wildcard, and have released five expansion packs, or DLCs.

- *Scorched Earth*. A desert map with minimum water and extreme weathers. The DLC was released on September 2016.
- *Aberration*. A radiation style expansion pack to explore the mysterious underground world. The DLC was released on December 2017.
- *Extinction*. A mechanical style expansion pack themed to fight against giant titans and save the post-apocalyptic earth. The DLC was released on November 2018.
- *Genesis 1 & 2*. A mission-based gameplay DLC with the ability to explore new worlds and mysterious stories. The DLCs were released in February 2020 and in June 2021, respectively.

Last Oasis: Developed in connection with our wholly owned subsidiary, Donkey Crew, *Last Oasis* is a Nomadic Survival MMO with a focus on PvP, clan warfare and social interactions. Set in the unique world where the Earth has stopped rotating, the last human survivors need to outrun the scorching Sun using giant wind walkers to avoid the ever moving cloud of magic mist. The game was released by Early Access on March 2020, and currently supports consoles (Xbox One and Xbox Series X/S) and PCs.

Atlas: Developed in partnership with Grapeshot Games, *Atlas* is a pirate themed sandbox survival game. The game features a massive world, using latest network technology, allowing for an infinite array of islands to explore and inhabit as the players sees fit. The game was released by Early Access on December 2018 and supports consoles (Xbox One, Xbox Series X/S) and PCs.

Our Technology

We employ industry standard game engines for the majority of our games, which allows flexibility and accelerated game development. Our proprietary code modifies the game engines to fit the needs and features of our games as necessary, and for franchises like *ARK*, we are able to leverage that proprietary code in the development of new DLCs for existing games and development of entirely new games. We retain ownership of all code developed for our proprietary engine, Flexi, which is currently being used to develop certain games in our pipeline with the expectation of launching to external developers in the near future.

We offer an industry-leading micro-influencer platform, *NOIZ,* through which influencers can connect with brands in need. We continue to make technological enhancements to *NOIZ*, with a focus on streamlining the process to connect brands with influencers, and facilitating and simplifying the agreements that need to be executed between the two parties.

Our Competition

The interactive entertainment market is highly competitive and evolves rapidly as new games, content and features are introduced. We compete with other interactive entertainment companies such as Activision

Blizzard, Inc., Electronic Arts Inc., Take-Two Interactive, Ubisoft, Epic Games, Tencent, Zynga, Netmarble, Sony, Microsoft and Nintendo primarily for game development on consoles, PCs and mobile devices. Across the sandbox survival game genre, we primarily compete with Embracer Group, Saber Group, Enand Global 7, FunCom, Axolot Games, and Facepunch Studios. We also face competition from other independent developer studios. Important factors in the video game development and publishing industries include innovation, creative and technical talent, game quality, brand recognition, platform compatibility, pricing, accessibility to distribution channels and customer service.

Our micro-influencer platform *NOIZ* competes against other growth-stage companies in the space, such as Lurkit and Rainmaker Collective, although *NOIZ* is the only micro-influencer platform currently in the operating stage.

Our broader competitors include other providers of digital entertainment, such as film, television, social networking, streaming and music.

Regulatory Matters

We are subject to various federal, state and international laws and regulations that affect companies conducting business on the Internet and mobile platforms, including those relating to privacy, use and protection of player and employee personal information and data (including the collection of data from minors), the Internet, behavioral tracking, mobile application, content, advertising and marketing activities (including sweepstakes, contests and giveaways) and anti-corruption. Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we can collect, use, host, store or transmit the personal information and data of our customers or employees, communicate with our players and deliver products and services, which significantly increase our compliance costs. As our business expands to include new uses or collection of data that are subject to privacy or security regulations and our operations continue to expand across the globe, our compliance requirements and costs will increase and we may be subject to increased regulatory scrutiny.

For more information regarding risks relating to data privacy and security, see “Risk Factors — Risks Related to Legal or Regulatory Compliance — Changing data privacy and security laws and regulations in the jurisdictions in which we or our consumers do business could increase the cost of our operations and subject us to possible sanctions, civil lawsuits (including class action or similar representative lawsuits) and other penalties; such laws and regulations are continually evolving. Our platform and service providers’ actual or perceived failure to comply with these laws and regulations could harm our business, financial condition and results of operations.”

Intellectual Property

Similar to other interactive entertainment companies, our business is significantly dependent on the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of software code, other technology, and trade secrets that we use to run our games. Other intellectual property includes of copyrighted audio-visual elements that consumers can see, hear, and interact with when they are playing our games. Most of the intellectual property we use is licensed to us by third-party game developers. We obtain such intellectual property rights through licenses and service agreements, and such licenses may limit our use of such intellectual property to specific uses and for specific time periods. We seek to advance and maintain our business through both a combination of licensed and owned intellectual property.

As of December 31, 2021, we owned the following trademarks related to the business: 15 registered trademarks in the United States and two registered trademarks in non-U.S. jurisdictions. As of December 31, 2021, we did not have any pending trademark registration applications. As of December 31, 2021, we owned nine registered United States copyrights. As of December 31, 2021, we owned one issued U.S. design patent and one pending U.S. design patent application through one of our subsidiaries, which is scheduled to expire in 2033, assuming payment of all appropriate maintenance, renewal, annuity or other governmental fees. Additionally, we have registered domain names for websites that we use in our business, such as *snailgamesusa.com* and *playark.com*.

A majority of our revenue is derived from licensed intellectual property, such as our *ARK* franchise. We license the intellectual property underlying our *ARK* franchise from SDE, the parent company of Studio Wildcard. SDE is controlled by the spouse of Mr. Shi, our Founder and Chairman. We entered into an original exclusive software license agreement with SDE in November 2015, which has been subject to periodic amendments throughout the duration of the *ARK* franchise. We are presently in negotiations to enter into an amended and restated exclusive software license agreement with SDE. In 2021, 2020 and 2019, we paid $18.0 million, $24.1 million and $5.0 million, respectively, in license costs and $21.5 million, $20.7 million and $20.0 million, respectively, in royalty payments.

In addition to our primary license for the *ARK* franchise, we are also party to other licensing agreements with Suzhou Snail Digital Technology Co., a related party and an entity controlled by Mr. Shi, relating to the intellectual property for our mobile games. Under these license agreements, we receive an exclusive, sublicensable license to use, publish, distribute, market, operate and service games from third parties. The license agreements call for the developers to develop a certain number of titles for us, while we are responsible for the operation and launch of such games including the marketing, strategy, billing, and server maintenance for such games. In these agreements, payment terms will frequently include royalty payments to developers in the low to mid double-digit percentages range and will occasionally include up-front licensing payments. Under these agreements, the developer will own all of the intellectual property, and the agreements can be terminated for breach with a period to cure, for insolvency, or for our nonpayment. In 2021, 2020 and 2019, we accrued $0.7 million, $0.8 million and $1.3 million, respectively, in license costs, which we record as accounts payable to parent.

Further, our products that play on consoles and mobile platforms include technology that is owned by the platform provider and is licensed non-exclusively to us for use in the relevant product. We also license technology from providers other than console manufacturers in developing our content and services. While we may have renewal rights for some licenses, our business is dependent on our ability to continue to obtain the intellectual property rights from the owners of these rights on reasonable terms and at reasonable rates.

We are actively engaged in enforcement of our copyright, trademark, patent and trade secret rights against potential infringers of those rights along with other protective activities, including monitoring online channels for distribution of pirated copies and participating in various enforcement initiatives, education programs, and legislative activity around the world. For our PC products, we use technological protection measures to prevent piracy and the use of unauthorized copies of our products. For other platforms, the platform providers typically incorporate technological protections and other security measures in their platforms to prevent the use of unlicensed products on those platforms.

For more information regarding risks relating to data privacy and security, see “Risk Factors — Risks Related to Intellectual Property.”

Facilities

Our principal executive offices, which we own, are located at 12049 Jefferson Boulevard, Culver City, California 90230. Our Term Loan is secured by our principal executive offices. We also lease additional facilities to support our operations. We believe our existing facilities are sufficient for our current needs. We may add new facilities and expand our existing facilities as we add employees and expand into new locations. We believe suitable additional space will be available as needed to accommodate our needs.

Human Capital Resources

As of December 31, 2021, we had 63 full-time employees worldwide, of whom approximately 76% are based in North America and approximately 24% are based in Europe, the Middle East and Africa (“EMEA”) region. We have approximately 38% of employees dedicated to technology and content development, 25% to marketing and 37% to general administration. Through our partnerships, we also have access to 602 additional team members, approximately 73% are dedicated to technology and content development. We do not have any part-time employees nor do we have any unions or collective bargaining agreements with any of our employees. We work to identify, attract and retain employees who are aligned with and will help us progress towards our mission, and we seek to provide competitive cash and equity compensation.

Legal Proceedings

From time to time, we are subject to various claims, complaints and legal actions in the normal course of business. In addition, we may receive notifications alleging infringement of patent or other intellectual property rights.

On December 1, 2021, we and Studio Wildcard sent a notice of claimed infringement (the "DCMA Takedown Notice") to Valve Corporation, which operates the Steam platform, pursuant to the Digital Millennium Copyright Act ("DCMA"). The DCMA Takedown Notice concerns a videogame titled *Myth of Empires*, which was developed by Suzhou Angela Online Game Technology Co., Ltd. ("Angela Game") and published by Imperium Interactive Entertainment Limited ("Imperium"). The DCMA Takedown Notice alleges that Angela Game and Imperium misappropriated the copyrighted source code of *ARK: Survival Evolved* and used it to develop the game *Myth of Empires*. The DCMA Takedown Notice requested that Steam cease distributing *Myth of Empires* and remove the game from the Steam platform. Steam complied with the DCMA Takedown Notice and removed *Myth of Empires* from its platform. The DCMA Takedown Notice was also sent to Tencent Cloud LLC ("Tencent"), which hosts the U.S. servers for users who downloaded the game before it was removed from Steam, but Tencent has not complied with the DCMA Takedown Notice.

On December 9, 2021, Angela Game and Imperium filed a complaint against us and Studio Wildcard in the United States District Court for the Central District of California in response to the DCMA Takedown Notice. The lawsuit seeks a declaratory judgment on non-liability for copyright infringement and non-liability for trade secret misappropriation, as well as unspecified damages for alleged misrepresentations in the DCMA Takedown Notice. Angela Game and Imperium also filed an application for a temporary restraining order asking the court to order us and Studio Wildcard to rescind the DCMA Takedown Notice so that Steam could once again reinstate *Myth of Empires* for download. On December 20, 2021, we and Studio Wildcard filed an answer to the complaint, which included counterclaims against Angela Game and Imperium and a third-party complaint against Tencent seeking unspecified damages resulting from the alleged copyright infringement and misappropriation of trade secrets in connection with the *ARK: Survival Evolved* source code. On December 23, 2021 the court denied the application for a temporary restraining order and issued an order to show cause as to why a preliminary injunction should not be issued. On January 31, 2022, a hearing was held on the order to show cause, and the court issued an order denying the preliminary injunction.

On February 3, 2022, Angela Game and Imperium appealed the order to the Ninth Circuit Court of Appeal, claiming that the district court judge abused her discretion in denying the injunction. The parties have filed the required briefs. The Ninth Circuit will hear argument in November 2022. In the meantime, the district court has appointed a neutral expert to compare the parties' computer code and issue a report to the court about the extent of similarities. The parties have also retained their own experts to compare the code. The district court has set no discovery deadlines or a trial date. At this time, we are unable to quantify the magnitude of the potential loss should the plaintiffs' lawsuit succeed. We have not recorded any accrual as the legal costs are being borne by Studio Wildcard.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information regarding the persons who will serve as our executive officers and directors upon the consummation of the Transactions.

Name	Age	Position
Executive Officers		
Jim S. Tsai	63	Chief Executive Officer and Director
Heidy Chow	43	Chief Financial Officer and Director
Peter Kang	42	Chief Operating Officer and Director
Non-Employee Directors		
Hai Shi	49	Founder and Chairman of the Board of Directors
Ying Zhou	48	Director
Sandra Pundmann	63	Director Nominee
Neil Foster	60	Director Nominee

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

Executive Officers

Jim S. Tsai has been a member of our Board of Directors since January 11, 2022. He has been a member of Snail Games USA's Board of Directors since November 2021. He has served as its Chief Executive Officer since November 2021. He previously served as Snail Games USA's Chief Operating Officer from October 2020 to November 2021. From October 2015 to September 2020, Mr. Tsai served as chief executive officer of SDE Inc., a video game developer company. Prior to that, Mr. Tsai served as Vice President of Snail Games USA Inc. from April 2014 to September 2015. Mr. Tsai holds a Bachelor of Fine Arts from Chinese Culture University.

Heidy Chow has been a member of our Board of Directors since January 11, 2022. She has been a member of Snail Games USA's Board of Directors since November 2021. She has served as its Chief Financial Officer since September 2020. Prior to joining the Company, Ms. Chow was a partner with the Pun Group, LLP from August 2015 to September 2020. From July 2014 to June 2015, Ms. Chow served as a manager of Ernst and Young, a certified public accounting and advisory firm. Since December 2019, Ms. Chow has also served as chair of the audit committee for Franklin Wireless Corp. Ms. Chow holds a Bachelor of Science degree from California Polytechnic University of Pomona. Ms. Chow is currently a licensed CPA from the California Board of Accountancy.

Peter Kang has been a member of our Board of Directors since January 11, 2022. He has been a member of Snail Games USA's Board of Directors since November 2021. He has served as Snail Games USA's Chief Operating Officer since December 2021, a role he previously held from December 2012 to October 2020. Mr. Kang served as Snail Games USA's Vice President of Business Development from October 2020 to November 2021, and also served as director of Snail Games USA's business development unit between 2015 and 2020 and as a producer of our game operations team between 2012 and 2015. From 2018 to 2021, Mr. Kang acted as a representative of the Managing Director for Eminence Corp. DBA Noiz.gg. Mr. Kang holds a Bachelor of Science in Microbiology, Immunology and Molecular Genetics from the University of California at Los Angeles.

Non-Employee Directors

Hai Shi has been a member of our Board of Directors since January 11, 2022. He has been a member of Snail Games USA's Board of Directors since its incorporation and served as Snail Games USA's Chief

Executive Officer from its inception to November 2021. Prior to forming Snail Games USA Inc., Mr. Shi founded and has served as chairman and chief executive officer of Suzhou Snail Digital Technology Co., Ltd. since April 2001. Mr. Shi has been an active participant of the gaming industry for more than twenty years. Mr. Shi holds a Bachelor of Fine Arts from Nanjing Normal University. We believe Mr. Shi's executive management and gaming experience make him well qualified to serve as our chairman.

Ying Zhou has been a member of our Board of Directors since January 11, 2022. She has been a member of Snail Games USA's Board of Directors since November 2021. Since September 2020, Ms. Zhou has served as Chief Executive Officer of SDE Inc., a gaming investment company. Since November 2000, Ms. Zhou served as vice president Suzhou Snail Digital Technology Co., Ltd., and since 2011, Ms. Zhou served as a director for Suzhou Snail Digital Technology Co., Ltd. Ms. Zhou holds a Bachelor of Fine Arts from Nanjing Normal University. We believe Ms. Zhou's experience in executive management roles and gaming experience make her well qualified to serve as a director.

Sandra Pundmann Ms. Pundmann recently retired as a Senior Partner from Deloitte, a global accounting and professional service firm where she served from 1996 to 2021. From 2015 to 2020, Ms. Pundmann was the U.S. Managing Partner of Internal Audit within Risk and Financial Advisory, a member of the Global Internal Audit Executive team, America's Operational Risk leader and a senior Technology, Media & Telecommunications (TMT) partner serving start-up to Fortune 10 companies in a variety of industries. Ms. Pundmann has an MBA from the University of Missouri-St. Louis and a Bachelor of Science in Accounting and Computer Information Systems from Missouri State University. We believe Ms. Pundmann's experience in serving technology and media companies and extensive governance, audit, financial, risk management, accounting and internal controls experience arising from 40 years of public and corporate roles make her well qualified to serve as a director.

Neil Foster has over 30 years of experience in senior leadership positions at the nexus of technology and media with executive functional oversight including finance, strategy, technology, human resources, and legal. His executive career spans senior operating roles navigating the digital transformation of media in the recorded music business with Sony Music Entertainment (SONY) and in video gaming with Take-Two Interactive (TTWO). From 2015 until the company's sale to Paltalk in late 2016, Neil previously served on the board of SNAP Interactive, Inc., a publicly traded developer and operator of dating applications for social networking websites and mobile platforms. Neil began his career as a management consultant at McKinsey & Company, Inc. He holds a BComm undergraduate degree from the University of Toronto, an MBA from Harvard University, and is a Canadian Chartered Accountant. We believe Neil's experience in finance and operations in media companies makes him well qualified to serve as a director.

Family Relationships

Mr. Shi and Ms. Zhou are husband and wife. There are no other family relationships among any of the individuals who serve as directors or executive officers of Snail.

Corporate Governance

Controlled Company Exemption

Upon completion of this offering, Mr. Shi will continue to control a majority of the voting power of our outstanding common stock. As a result, we will be a "controlled company" under Nasdaq corporate governance standards. As a controlled company, exemptions under the standards will free us from the obligation to comply with certain corporate governance requirements, including the requirements:

- that we have a compensation committee or nominating and corporate governance committee;
- that a majority of our board of directors consist of "independent directors," as defined under the rules of Nasdaq;
- that any corporate governance and nominating committee or compensation committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

- that we have an annual performance evaluation of the nominating and governance committees and compensation committee.

These exemptions do not modify the independence requirements for our Audit Committee, and we intend to comply with the requirements of Rule 10A-3 of the Exchange Act, and the rules of Nasdaq within the applicable time frame.

Board of Directors

Upon the consummation of this offering, our board of directors will be composed of seven members. Our amended and restated certificate of incorporation will provide that all of our directors will be elected annually at the annual meeting of the stockholders until the first date on which either (1) Mr. Shi and Ms. Zhou and their respective affiliates no longer hold more than 50% of the voting power of our outstanding shares of common stock or (2) we no longer qualify as a "controlled company" under the Nasdaq rules in effect on the date of this offering, at which time our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible, and with the directors serving three-year terms. For further information, see the section entitled "Description of Capital Stock — Anti-Takeover Provisions — Certificate of Incorporation and Bylaws — Classified Board."

Director Independence

In connection with this offering, our board of directors has undertaken a review of the independence of each director and considered whether each director has a material relationship with us that could compromise his or her ability to exercise independent judgment in carrying out his or her responsibilities. As a result of this review, our board of directors determined that each of Sandra Pundmann and Neil Foster is an "independent director" as defined under the applicable rules and regulations of the SEC and the listing requirements and rules of Nasdaq, representing approximately 29% of our seven directors. In making these determinations, our board of directors reviewed information provided by the directors and us with regard to each director's business and personal activities and current and prior relationships as they may relate to us and our management, including the beneficial ownership of our capital stock by each non-employee director and any transactions involving them described in the section titled "Certain Relationships and Related Party Transactions."

Board Committees

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has the composition and the responsibilities described below. In addition, from time to time, special committees may be established under the direction of our board of directors when necessary to address specific issues.

Each of the audit committee, the compensation committee and the nominating and corporate governance committee will operate under a written charter that will be approved by our board of directors in connection with this offering. A copy of each of the audit committee, compensation committee and nominating and corporate governance committee charters will be available in the investors section of our corporate website substantially concurrently with the closing of this offering. References to our corporate website in this prospectus does not include or incorporate by reference the information on our corporate website into this prospectus

Audit Committee

Our audit committee oversees our corporate accounting and financial reporting process and assists our board of directors in monitoring our financial systems. Our audit committee will be responsible for, among other things:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;

- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

Our audit committee consists of , and , with serving as chair. Our board of directors has affirmatively determined that and each meet the requirements for independence under current Nasdaq listing standards and SEC rules and regulations. Under applicable Nasdaq listing standards and SEC rules and regulations, we are permitted to phase in our compliance with the audit committee independence requirements as follows: (1) one independent member at the time of listing, (2) a majority of independent members within 90 days of listing and (3) all independent members within one year of listing. Within one year of our listing on Nasdaq, we intend to ensure that all members of our audit committee will meet the applicable independence requirements under Nasdaq listing rules and Rule 10A-3 of the Exchange Act.

In addition, our board of directors has determined that each member of our audit committee is financially literate, and that each of and is an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K promulgated under the Securities Act.

Compensation Committee

Our compensation committee oversees our compensation policies, plans and benefits programs. Our compensation committee will be responsible for, among other things:

- reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer, evaluating our Chief Executive Officer's performance in light of these goals and objectives and setting compensation;
- reviewing and setting or making recommendations to our board of directors regarding the compensation of our other executive officers;
- reviewing and approving or making recommendations to our board of directors regarding our incentive compensation and equity-based plans and arrangements; and
- appointing and overseeing any compensation consultants.

Our compensation committee consists of , and , with serving as chair. Our board of directors has affirmatively determined that each of and meets the requirements for independence under the current Nasdaq listing standards (including Nasdaq's controlled-company exemption) and that each is a non-employee director, as defined in Section 16b-3 of the Exchange Act. Under applicable Nasdaq listing standards, we are permitted to phase in our compliance with the compensation committee independence as follows: (1) one independent member at the time of listing, (2) a majority of independent members within 90 days of listing and (3) all independent members within one year of listing.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee oversees and assists our board of directors in reviewing and recommending nominees for election as directors. Our nominating and corporate governance committee will be responsible for, among other things:

- identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors;

- recommending to our board of directors the nominees for election to our board of directors at annual meetings of our stockholders;
- evaluating the overall effectiveness of our board of directors; and
- developing and recommending to our board of directors a set of corporate governance guidelines and principles.

Our nominating and corporate governance committee consists of , and , with serving as chair. The composition of our nominating and corporate governance committee will meet the requirements for independence under current rules and regulations of the SEC and Nasdaq, including Nasdaq's controlled company exemption.

Role of the Board in Risk Oversight

Our board of directors has an active role, as a whole and also at the committee level, in overseeing the management of our risks. Our board of directors is responsible for general oversight of risks and regular review of information regarding our risks, including credit risks, liquidity risks and operational risks. The compensation committee will be responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. The audit committee is responsible for overseeing the management of risks relating to accounting matters and financial reporting. The audit committee is also responsible for overseeing the management of risks associated with the independence of our board of directors and potential conflicts of interest. Although each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board of directors is regularly informed through discussions from committee members about such risks. Our board of directors believes its administration of its risk oversight function has not negatively affected our board of directors' leadership structure.

Code of Business Conduct and Ethics

Our board of directors will adopt code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions prior to the completion of this offering. Substantially concurrently with the closing of this offering, a current copy of the code will be posted on the investor section of our corporate website.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or one of our employees. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any entity that has one or more executive officers serving on our board of directors or compensation committee.

COMPENSATION DISCUSSION AND ANALYSIS

We are an emerging growth company as defined in the JOBS Act. As an emerging growth company, we have reduced disclosure obligations regarding executive compensation compared to companies that are not emerging growth companies. Under the JOBS Act, we will remain an emerging growth company for the first five fiscal years after we complete our initial public offering, unless (a) we have total annual gross revenues of $1.07 billion or more, (b) we issue more than $1 billion in non-convertible debt over a three-year period, or (c) we are deemed to be a "large accelerated filer" under the Exchange Act.

Summary Compensation Table

The following table sets forth information concerning the compensation paid to our principal executive officer, our two other most highly compensated executive officers during our fiscal year ended December 31, 2021 and our former chief executive officer (collectively referred to as our "named executive officers," or "NEOs").

2021 SUMMARY COMPENSATION TABLE

Name	Principal Position[1]	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Non qualified Deferred Compensation Earnings ($)	All Other Compensation ($)[2]	Total ($)
Hai Shi	Founder, Chairman	2021	375,231	—	—	—	—	—	22,224	397,455
Heidy K. Chow	Chief Financial Officer	2021	380,000	—	—	—	—	—	7,537	387,537
Jim Tsai	Chief Executive Officer	2021	374,423	—	—	—	—	—	7,933	382,356
Peter Kang	Chief Operating Officer	2021	252,500	—	—	—	—	—	22,657	275,157

(1)

- Mr. Hai Shi stepped down as Chief Executive Officer on November 1, 2021. He remains our Chairman.
- Mr. Tsai became our Chief Executive Officer as of November 1, 2021.
- Mr. Kang became our Chief Operating Officer as of December 1, 2021.

(2) Represents health care benefits paid for by the Company.

Narrative to the Summary Compensation Table

In 2021, the primary element of compensation for our NEOs was base salary. NEOs are also eligible to receive annual bonuses at the discretion of the Company's board of directors. The NEOs also participate in employee benefit plans and programs that we offer to our other full-time employees on the same basis, including, starting in May 2021, the Company also began providing employer matching contributions to the Company's 401(k) plan.

Employment Arrangements

We have entered into employment letters with Mr. Tsai and Mr. Kang, as well as an offer letter with Ms. Chow, the terms of each of which are summarized below.

On November 1, 2021, we entered into an amended employment letter with Mr. Tsai, our Chief Executive Officer as of November 1, 2021, under which he is employed at-will. The amended employment letter provides for a base salary of $660,000.

On December 1, 2021, we entered into an amended employment letter with Mr. Kang, our Chief Operating Officer as of December 1, 2021, under which he is employed at-will. The amended employment letter provides for a base salary of $300,000.

On August 18, 2020, we entered into an offer letter with Ms. Chow, our Chief Financial Officer, under which she is employed at-will. Ms. Chow's offer letter provides for a base salary of $380,000.

Mr. Tsai, Mr. Kang and Ms. Chow will be eligible to participate in our stock option plans (once established). Their respective annual bonuses are to be determined by our board of directors, and they are each eligible to participate in our benefit plans. Mr. Tsai and Ms. Chow have agreed not to compete with us during the term of their employment, and to not solicit any of our customers or employees during a two-year restricted period following termination of employment.

Restrictive Covenants

All employees, including the NEOs, are subject to customary confidentiality obligations and intellectual property protection covenants.

Other Elements of Compensation

Retirement Savings and Health and Welfare Benefits

In 2021, we adopted a 401(k) plan for our employees (including our named executive officers) who satisfy certain eligibility requirements. Our NEOs are eligible to participate in the 401(k) plan on the same terms as other full-time employees. They receive a matching contribution equal to 50% of the participant's own contribution, up to 3% of the participant's eligible compensation.

All of our full-time employees, including our NEOs, are eligible to participate in a broad array of customary health and welfare plans.

Equity Compensation

We have not granted any equity compensation and therefore our NEOs did not have any outstanding equity awards at 2021 fiscal year end.

In connection with this offering, we intend to adopt an equity incentive plan. The purpose of the equity incentive plan will be to motivate and reward performance of our directors, executives, other employees and consultants and to further the best interests of us and our stockholders. We will include details of the material terms and conditions of the equity incentive plan in a future filing.

2021 Director Compensation

Mr. Shi did not receive any additional compensation for his service in his capacity as a director in the year ended December 31, 2021. In addition, we have not granted any equity compensation and therefore our non-employee directors did not have any outstanding equity awards at 2021 fiscal year end. Following the closing of this offering, we intend to implement a new director compensation program, the terms of which have not yet been determined.

PRINCIPAL STOCKHOLDERS

The following table and accompanying footnotes presents information relating to the beneficial ownership of our Class A and Class B common stock (1) immediately prior to the completion of this offering and (2) following the sale of Class A common stock in this offering, assuming no exercise of the underwriters' option to purchase additional shares:

- each person, or group of affiliated persons, known by us to own beneficially 5% or more of our outstanding shares;
- each of our directors and executive officers that will be in place as of the consummation of this offering, individually; and
- all directors and executive officers as a group.

The number of shares of common stock beneficially owned by each entity, person, executive officer or director is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or investment power as well as any shares that the individual has the right to acquire within 60 days through the exercise of any option, warrant or other right. Except as otherwise indicated, and subject to applicable community property laws, we believe that each stockholder identified in the table below possesses sole voting and investment power over all the Class A common stock or Class B common stock shown as beneficially owned by the stockholder in the table.

The percentages of beneficial ownership in the table below are calculated on the basis of the following numbers of shares outstanding:

- immediately prior to the completion of this offering: shares of Class A common stock and shares of Class B common stock; and
- following the sale of Class A common stock in this offering, assuming no exercise of the underwriters' option to purchase additional shares: shares of Class A common stock and shares of Class B common stock.

Unless otherwise indicated below, the address for each beneficial owner is c/o Snail, Inc., 12049 Jefferson Boulevard, Culver City, California 90230.

	Shares of Common Stock Beneficially Owned Prior to Offering				% of Total Voting Power Before Offering	Shares of Common Stock Beneficially Owned After Offering[1]				% of Total Voting Power After Offering
	Class A		Class B			Class A		Class B		
Stockholders	**Shares**	**%**	**Shares**	**%**		**Shares**	**%**	**Shares**	**%**	
5% Stockholders										%
		%		%	%		%		%	%
Directors and Named Executive Officers										
Hai Shi		%		%	%		%		%	%
Jim S. Tsai		%		%	%		%		%	%
Heidy Chow		%		%	%		%		%	%
Peter Kang		%		%	%		%		%	%
Ying Zhou		%		%	%		%		%	%
Sandra Pundmann		%		%	%		%		%	%
Neil Foster		%		%	%		%		%	%
All directors and officers as a group		%		%	%		%		%	%

(1) Percentage of total voting power represents voting power with respect to all of our Class A and Class B common stock, as a single class. Holders of our Class A common stock are entitled to one vote per share, whereas holders of our Class B common stock are entitled to ten votes per share. For more information about the voting rights of our Class common stock and Class B common stock, see "Description of Capital Stock."

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the equity and other compensation, termination, change in control and other arrangements discussed in the section titled "Compensation Discussion and Analysis," the following is a description of each transaction since January 1, 2019 and each currently proposed transaction which:

- we have been or are to be a participant;
- the amount involved exceeded or will exceed $120,000; and
- any of our directors, executive officers or, to our knowledge, beneficial owners of more than 5% of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

Loans to Related Parties

Snail Games USA had been party to a line of credit note with Mr. Shi, our Founder and Chairman, since November 2018, which provided for loans to Mr. Shi up to a maximum aggregate principal amount of $100.0 million (the "Shi Loan"). Interest accrued on outstanding amounts at a rate of 2.00% per year, and all outstanding amounts were due and payable on demand. As of December 31, 2021, outstanding borrowings (including interest receivable) under the line of credit amounted to $94.4 million. In April 2022, Snail Games USA distributed the Shi Loan, consisting of a dividend in kind and a cash dividend, to Suzhou Snail, which assumed the loan as creditor. At the time of the distribution, $94.9 million was outstanding, including interest. As a result of this distribution, the total withholding taxes amounted to $8.2 million, which amount was distributed to Suzhou Snail in connection with the distribution of the Shi Loan and subsequently paid on April 29, 2022. As of June 30, 2022, as a result of the distribution, the Shi Loan is no longer reflected within the Company's consolidated balance sheet.

Loans from Related Parties

We have a loan due to Suzhou Snail Digital Technology Co., a related party and an entity controlled by Mr. Shi, and a subsidiary of Suzhou Snail Digital Technology Co. Interest on the loan accrues at a rate of 2.00% per year, and outstanding amounts are due and payable in 2022 and 2023, respectively. As of December 31, 2021 and 2020, total loan payable — related parties amounted to $0.4 million and $0.4 million, respectively, and total unpaid interest amounted to $0.5 million and $0.5 million as of December 31, 2021 and 2020, respectively. During 2021, 2020 and 2019, we paid $0, $0 and $7.0 million, respectively, as principal repayments of the loan. As of June 30, 2022, the total loan payable — related parties amounted to $0.3 million and total unpaid interest amounted to $0.5 million. The reduction in principal was due to the offset with another loan to related parties.

Consulting Agreements

Between January 2017 and September 2020, and prior to his appointment as Chief Operating Officer, Jim Tsai and the company were party to a consulting agreement pursuant to which Mr. Tsai provided consulting services to the company in exchange for $22,500 per month. The consulting services rendered by Mr. Tsai consisted of consultations with management of the company as needed during the consulting period. Such consultations with management were with respect to business growth and development, financial matters, and general business consultation. The consulting agreement with Mr. Tsai was terminated upon his appointment as Chief Operating Officer. See "Compensation Discussion and Analysis" for additional information.

License Agreements

We have entered into license agreements relating to the intellectual property rights of certain of the games it publishes, including those under its *ARK* franchise. For additional information, please see "Business — Intellectual Property."

Director and Officer Indemnification and Insurance

We plan to enter into indemnification agreements with each of our directors and executive officers and have purchased directors' and officers' liability insurance. See "Description of Capital Stock — Limitations on Liability and Indemnification Matters."

Related Person Transaction Policy

Our board of directors will adopt a written related person transaction policy setting forth the policies and procedures for the review and approval or ratification of related person transactions. This policy will cover, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act, any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships, in which we were or are to be a participant, where the amount involved exceeds $120,000 in any fiscal year and a related person had, has or will have a direct or indirect material interest, including without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person. In reviewing and approving any such transactions, our audit committee will be tasked to consider all relevant facts and circumstances, including, but not limited to, whether the transaction is on terms comparable to those that could be obtained in an arm's length transaction and the extent of the related person's interest in the transaction.

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock and certain provisions of our certificate of incorporation and bylaws are summaries and are qualified by reference to the amended and restated certificate of incorporation and the amended and restated bylaws that will be in effect upon the closing of this offering. Copies of these documents will be filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part. The descriptions of our common stock and preferred stock reflect changes to our capital structure that will occur upon the closing of this offering.

General

Upon the closing of this offering, our authorized capital stock will consist of shares, all with a par value of $0.0001 per share, of which:

shares shall be designated as Class A common stock;

shares shall be designated as Class B common stock; and

shares shall be designated as preferred stock.

Common Stock

As of , 2022, after giving effect to the Transactions, but prior to the sale of Class A common stock in this offering, we had outstanding shares of Class A common stock outstanding held by stockholders of record and shares of Class B common stock outstanding held by stockholders of record. There were no warrants to purchase shares of Class A common stock issued and outstanding. An election of directors by our stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of any series of preferred stock that we may designate and issue in the future.

Class A Common Stock

Voting rights. The holders of our Class A common stock are entitled to one vote per share on all matters to be voted upon by the stockholders.

Dividend rights. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of our Class A common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. See "Dividend Policy."

Rights upon liquidation. In the event of liquidation, dissolution or winding up of , the holders of our Class A common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Other rights. The holders of our Class A common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Class B Common Stock

Voting rights. The holders of our Class B common stock are entitled to ten votes per share on all matters to be voted upon by the stockholders. The holders of our Class A common stock and Class B common stock will vote together as a single class except with respect to voting for (1) a conversion event of Class B common stock to Class A common stock; (2) issuances of additional shares of Class B common stock; and (3) dividends, distributions, certain change of control transactions and subdivisions or combinations of outstanding shares of common stock in which shares of Class A common stock and shares of Class B common stock would be treated differently.

Dividend rights. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of our Class B common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available therefor. See "Dividend Policy."

Rights upon liquidation. In the event of liquidation, dissolution or winding up of the company, the holders of our Class B common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Conversion of Class B Common Stock. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. Following the completion of this offering, shares of Class B common stock will automatically convert into shares of Class A common stock upon sale or transfer except for certain permitted transfers described in our certificate of incorporation, including transfers effected for estate planning or other transfers among our founders, their family members and certain of their related entities. In addition, each share of Class B common stock held by a stockholder who is a natural person, or held by permitted transferees or permitted entities of such natural person (each as described in our certificate of incorporation) will automatically convert into shares of Class A common stock following the death or disability (as such term is defined in our certificate of incorporation) of such natural person.

Each outstanding share of Class B common stock will convert automatically into one share of Class A common stock upon the earliest of (i) the date and time specified by the affirmative vote of holders of Class B common stock representing not less than a majority of the voting power of the then outstanding shares of Class B common stock, voting separately as a class, or (ii) the date on which the number of then-outstanding shares of Class B common stock represents less than 5% of the voting power of the outstanding shares of Class A and Class B common stock, taken together as a single class.

Other rights. The holders of our common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

As of , 2022, after giving effect to the Transactions, there were no shares of preferred stock outstanding.

Under the terms of our certificate of incorporation, our board of directors will be authorized to direct us to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third-party to acquire, or could discourage a third-party from seeking to acquire, a majority of our outstanding voting stock. Upon the closing of this offering, there will be no shares of preferred stock outstanding, and we have no present plans to issue any shares of preferred stock.

Underwriters' Warrants

Please see "Underwriting" below for a full description of the warrants (and the shares of Class A common stock underlying such warrants) that we are issuing to the Underwriters in connection with this offering.

Anti-Takeover Provisions

Certificate of Incorporation and Bylaws

Voting Matters; Requirements for Advanced Notification

Because our stockholders do not have cumulative voting rights, our stockholders holding a majority of the voting power of our shares of common stock outstanding will be able to elect all of our directors. Our certificate of incorporation and bylaws will provide that from and after the time the company ceases to be a

"controlled company" under the rules of Nasdaq, all stockholder actions must be effected at a duly called meeting of stockholders and not by consent in writing. Further, a special meeting of stockholders may be called only by a majority of our board of directors, the chair of our board of directors, our chief executive officer or, so long as the company qualifies as a "controlled company," by the affirmative vote of at least fifty percent (50%) of the voting power of all of the then outstanding shares of voting stock, voting as a single class. Our certificate of incorporation and our bylaws prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. In addition, any stockholder who wishes to bring business before an annual meeting or nominate directors must comply with the advance notice requirements set forth in the bylaws.

Approval for Amendment of Certificate of Incorporation and Bylaws

Our certificate of incorporation will further provide that from and after the time the company ceases to be a "controlled company" under the rules of Nasdaq, the affirmative vote of holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required to amend certain provisions of our certificate of incorporation, including provisions relating to the size of the board, removal of directors, special meetings, actions by written consent and cumulative voting, and the affirmative vote of holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required to amend or repeal our bylaws, although our bylaws may be amended by a simple majority vote of our board of directors. For so long as the company remains a "controlled company" under the rules of Nasdaq, the affirmative vote of holders of at least fifty percent (50%) of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required to amend the provisions of our certificate of incorporation and our bylaws.

Classified Board

Our certificate of incorporation will further provide that all of our directors will be elected annually at the annual meeting of the stockholders until the first date on which either (1) Mr. Shi and Ms. Zhou and their respective affiliates no longer hold more than 50% of the voting power of our outstanding shares of common stock or (2) we no longer qualify as a "controlled company" under the Nasdaq rules in effect on the date of this offering, at which time our board of directors will be divided into three classes, Class I, Class II and Class III, with each class serving staggered terms, and will give our board of directors the exclusive right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director.

The foregoing provisions will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of our Company by replacing our board of directors. Since our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management. In addition, the authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change the control of our Company.

These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and its policies and to discourage certain types of transactions that may involve an actual or threatened acquisition of our Company. These provisions are also designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. However, these provisions could have the effect of discouraging others from making tender offers for our shares and may have the effect of deterring hostile takeovers or delaying changes in control of our Company or our management. As a consequence, these provisions also may inhibit fluctuations in the market price of our stock that could result from actual or rumored takeover attempts.

Exclusive Forum

Our certificate of incorporation will provide that the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers or other employees to us or our stockholders, (3) any

action asserting a claim against us or any current or former director, officer or other employee of us arising out of or pursuant to any provision of the Delaware General Corporation Law (the "DGCL"), our certificate of incorporation or our bylaws, (4) any action to interpret, apply, enforce, or determine the validity of our certificate of incorporation or our bylaws, (5) any claim or cause of action as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware and (6) any other action asserting a claim that is governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court having jurisdiction over indispensable parties named as defendants. However, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Securities Act, the Exchange Act or any claim for which the federal district courts of the United States have exclusive jurisdiction.

In addition, our certificate of incorporation will provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. However, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any claim for which the federal district courts of the United States have exclusive jurisdiction.

Any person or entity purchasing or otherwise acquiring any interest in our capital stock shall be deemed to have notice of and consented to these provisions and will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder. Although we believe these provisions benefit us by providing increased consistency in the application of Delaware law or federal law for the specified types of actions and proceedings, these provisions may have the effect of discouraging lawsuits against us or our directors and officers.

Section 203 of the Delaware General Corporation Law

We are subject to Section 203 of the DGCL, which prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years after the date that such stockholder became an interested stockholder, with the following exceptions:

- before such date, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned by (1) persons who are directors and also officers and (2) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after such date, the business combination is approved by our board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines business combination to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

- the receipt by the interested stockholder of the benefit of any loss, advances, guarantees, pledges or other financial benefits by or through the corporation.

In general, Section 203 defines an "interested stockholder" as an entity or person who, together with the person's affiliates and associates, beneficially owns, or within three years prior to the time of determination of interested stockholder status did own, 15% or more of the outstanding voting stock of the corporation.

Limitations on Liability and Indemnification Matters

Our certificate of incorporation and bylaws, which will become effective immediately prior to the closing of this offering, will provide that we will indemnify each of our directors and executive officers to the fullest extent permitted by the DGCL. We have entered into indemnification agreements with each of our directors and executive officers that may, in some cases, be broader than the specific indemnification provisions contained under Delaware law. Further, pursuant to our indemnification agreements and directors' and officers' liability insurance, our directors and executive officers are indemnified and insured against the cost of defense, settlement or payment of a judgment under certain circumstances. In addition, as permitted by Delaware law, our certificate of incorporation will include provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director.

These provisions may be held not to be enforceable for violations of the federal securities laws of the United States.

Listing

We have applied to list our Class A common stock on Nasdaq under the symbol "SNAL."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company LLC.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our Class A common stock. Future sales of substantial amounts of Class A common stock, including Class A common stock issued upon the conversion of Class B common stock, in the public market after this offering, or the possibility of these sales occurring, could adversely affect the prevailing market price for our Class A common stock or impair our ability to raise equity capital.

Upon the completion of this offering and assuming no exercise of any Underwriters' Warrants, we will have an aggregate of shares of common stock outstanding. Of these shares, the shares of Class A common stock sold in this offering by us will be freely tradable without restriction or further registration under the Securities Act, unless purchased by "affiliates" as that term is defined under Rule 144 of the Securities Act, who may sell only the volume of shares described below and whose sales would be subject to additional restrictions described below.

The remaining shares of common stock, assuming no exercise of any Underwriters' Warrants, representing % of our outstanding shares of common stock, will be held by our existing stockholders. These shares will be "restricted securities" as that phrase is defined in Rule 144 under the Securities Act. Subject to certain contractual restrictions, including the lock-up agreements described below, holders of restricted shares will be entitled to sell those shares in the public market pursuant to an effective registration statement under the Securities Act or if they qualify for an exemption from registration under Rule 144. Sales of these shares in the public market after the restrictions under the lock-up agreements lapse, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions. As a result of lock-up agreements and market standoff agreements described below, and the provisions of Rules 144 under the Securities Act, the restricted securities will be available for sale in the public market.

Sales of these shares in the public market after the restrictions under the lock-up agreements lapse, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions.

Lock-up Agreements

We and each of our directors, executive officers and substantially all of our stockholders have agreed, subject to certain exceptions, not to sell or transfer any shares of Class A common stock or securities convertible into, exchangeable for, exercisable for, or repayable with shares of Class A common stock (including our Class B common stock), for days after the date of this prospectus without first obtaining the written consent of the representatives.

Upon the expiration of the applicable lock-up periods, substantially all of the shares subject to such lock-up restrictions will become eligible for sale, subject to the limitations discussed above. For a further description of these lock-up agreements, please see "Underwriting."

Eligibility of restricted shares for sale in the public market

The shares of Class A common stock that are not being sold in this offering, but which will be outstanding at the time this offering is complete, will be eligible for sale into the public market, under the provisions of Rule 144 commencing after the expiration of the restrictions under the lock-up agreements, subject to volume restrictions discussed below under "— Rule 144."

Rule 144

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

A person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of our Class A common stock or the average weekly trading volume of our Class A common stock on the during the four calendar weeks preceding such sale. Such sales are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us.

MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSEQUENCES FOR NON-U.S. HOLDERS OF CLASS A COMMON STOCK

The following are the material U.S. federal income and estate tax consequences of the ownership and disposition of our Class A common stock acquired in this offering by a "Non-U.S. Holder" that does not own, and has not owned, actually or constructively, more than 5% of Class A common stock. You are a Non-U.S. Holder if for U.S. federal income tax purposes you are a beneficial owner of our Class A common stock that is:

- a nonresident alien individual;
- a foreign corporation; or
- a foreign estate or trust.

You are not a Non-U.S. Holder if you are a nonresident alien individual present in the United States for 183 days or more in the taxable year of disposition, or if you are a former citizen or former resident of the United States for U.S. federal income tax purposes. If you are such a person, you should consult your tax adviser regarding the U.S. federal income tax consequences of the ownership and disposition of our Class A common stock.

If a partnership or other pass-through entity (including an entity or arrangement treated as a partnership or other type of pass-through entity for U.S. federal income tax purposes) owns our Class A common stock, the tax treatment of a partner or beneficial owner of the entity may depend upon the status of the owner, the activities of the entity and certain determinations made at the partner or beneficial owner level. Partners and beneficial owners in partnerships or other pass-through entities that own our Class A common stock should consult their own tax advisors as to the particular U.S. federal income and estate tax consequences applicable to them.

This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this prospectus may affect the tax consequences described herein, possibly with retroactive effect. This discussion does not describe all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax and Medicare contribution tax consequences and does not address any aspect of state, local or non-U.S. taxation, or any taxes other than income and estate taxes. You should consult your tax adviser with regard to the application of the U.S. federal tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Dividends

As discussed under "Dividend Policy" above we do not anticipate paying any cash dividends in the foreseeable future. In the event that we do make distributions of cash or other property, those distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed our current and accumulated earnings and profits, they will constitute a return of capital, which will first reduce your basis in our Class A common stock, but not below zero, and then will be treated as gain from the sale of our Class A common stock, as described below under "— Gain on Disposition of Our Class A Common Stock."

Dividends paid to you generally will be subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty. In order to obtain a reduced rate of withholding, you will be required to provide a properly executed applicable Internal Revenue Service ("IRS") Form W-8 certifying your entitlement to benefits under a treaty.

If dividends paid to you are effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base maintained by you in the United States), you will generally be taxed on the dividends in the same manner as a U.S. person. In this case, you will be exempt from the withholding tax discussed in the preceding paragraph, although you will be required to provide a properly executed IRS

Form W-8ECI in order to claim an exemption from withholding. You should consult your tax adviser with respect to other U.S. tax consequences of the ownership and disposition of our Class A common stock, including the possible imposition of a branch profits tax at a rate of 30% (or a lower treaty rate) if you are a corporation.

Gain on Disposition of Our Class A Common Stock

Subject to the discussions below under "— Information Reporting and Backup Withholding" and "— FATCA Withholding Taxes," you generally will not be subject to U.S. federal income or withholding tax on gain realized on a sale or other taxable disposition of our Class A common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by you in the United States), or
- we are or have been a "United States real property holding corporation," as defined in the Code, at any time within the five-year period preceding the disposition or your holding period, whichever period is shorter, and our Class A common stock has ceased to be regularly traded on an established securities market prior to the beginning of the calendar year in which the sale or disposition occurs.

We believe that we are not, and do not anticipate becoming, a United States real property holding corporation.

If you recognize gain on a sale or other disposition of our Class A common stock that is effectively connected with your conduct of a trade or business in the United States (and if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by you in the United States), you will generally be taxed on such gain in the same manner as a U.S. person. You should consult your tax adviser with respect to other U.S. tax consequences of the ownership and disposition of our Class A common stock, including the possible imposition of a branch profits tax at a rate of 30% (or a lower treaty rate) if you are a corporation.

Information Reporting and Backup Withholding

Information returns are required to be filed with the IRS in connection with payments of dividends on our Class A common stock. Unless you comply with certification procedures to establish that you are not a U.S. person, information returns may also be filed with the IRS in connection with the proceeds from a sale or other disposition of our Class A common stock. You may be subject to backup withholding on payments on our Class A common stock or on the proceeds from a sale or other disposition of our Class A common stock unless you comply with certification procedures to establish that you are not a U.S. person or otherwise establish an exemption. Your provision of a properly executed applicable IRS Form W-8 certifying your non-U.S. status will permit you to avoid backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

FATCA Withholding Taxes

Payments to certain foreign entities of dividends on Class A common stock of a U.S. issuer are subject to a withholding tax (separate and apart from, but without duplication of, the withholding tax described above) at a rate of 30%, unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with those entities) have been satisfied or an exemption from these rules applies. Under proposed regulations issued by the Treasury Department on December 13, 2018, which state that taxpayers may rely on the proposed regulations until final regulations are issued, this withholding tax will not apply to the gross proceeds from any sale or disposition of Class A common stock. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. Non-U.S. holders should consult their tax advisors regarding the possible implications of this withholding tax on dividends on Class A common stock.

Federal Estate Tax

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty exemption, our Class A common stock will be treated as U.S.-situs property subject to U.S. federal estate tax.

UNDERWRITING

US Tiger Securities, Inc. and EF Hutton, division of Benchmark Investments, LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the number of shares of Class A common stock set forth opposite its name below.

Underwriter	Number of Shares
US Tiger Securities, Inc.	
EF Hutton, division of Benchmark Investments, LLC	
Total	

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

Concurrently with the execution and delivery of the underwriting agreement, we will set up an escrow account with a third-party escrow agent in the United States and will fund such account with $1,000,000 from this offering that may only be utilized by the underwriters to fund bona fide indemnification claims of the underwriters arising during a 12-month period following the offering. The escrow account will be interest bearing, and we may invest the assets in low risk investments such as bonds, mutual funds and money market funds. All funds that are not subject to an indemnification claim will be returned to us after the applicable period expires. We will pay the reasonable fees and expenses of the escrow agent.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to us	$	$	$

We will also pay to the underwriters by deduction from the net proceeds of this offering, a non-accountable expense allowance equal to one percent (1%) of the gross proceeds received by us from the sale of our shares of Class A common stock.

We have agreed to reimburse the underwriters for their reasonable out-of-pocket accountable expenses (including legal fees) up to a total of $600,000, of which we paid a deposit of $100,000 to the representatives upon the execution of the engagement letter between us and the representatives. Any expense deposits in excess of the amount paid by us on account of the underwriters' out-of-pocket expenses will be refunded to us in accordance with FINRA Rule 5110(g)(4).

We estimate that the total expenses of the offering payable by us, excluding the underwriting discounts and commissions, non-accountable expense allowance and reimbursement of the underwriters' out-of-pocket expenses, will be approximately $ million. We have also agreed to reimburse the underwriters for all expenses and fees of their legal counsel related to the review by FINRA, which will not exceed $.

Option to Purchase Additional Shares

We have granted an option to the underwriters, exercisable for days after the date of this prospectus, to purchase up to additional shares at the public offering price, less the underwriting discount. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Underwriters' Warrants

In addition, we have agreed to issue to the underwriters the Underwriters' Warrants to purchase a number of shares of Class A common stock equal to 5% of the total number of shares of Class A common stock sold in this offering (excluding any shares sold pursuant to the underwriters' option to purchase additional shares). The Underwriters' Warrants shall have an exercise price equal to 115% of the initial public offering price of the shares of Class A common stock sold in this offering. The Underwriters' Warrants may be purchased in cash or via cashless exercise, will be exercisable for three years from the effective date of the registration statement of which this prospectus forms a part and will terminate on the third anniversary of the effective date of the registration statement of which this prospectus forms a part. The Underwriters' Warrants and the underlying shares will be deemed compensation by FINRA, and therefore will be subject to FINRA Rule 5110(e)(1). In accordance with FINRA Rule 5110(e)(1), and except as otherwise permitted by FINRA rules, neither the Underwriters' Warrants nor any of our shares issued upon exercise of the Underwriters' Warrants may be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of such securities by any person, for a period of 180 days immediately following the effective date of the registration statement of which this prospectus forms a part. The shares of Class A common stock issuable upon full exercise of the Underwriters' Warrants are being registered in the registration statement of which this prospectus forms a part.

No Sales of Similar Securities

We, our executive officers and directors and our other existing security holders have agreed not to sell or transfer any common stock or securities convertible into, exchangeable for, exercisable for or repayable with common stock, for days after the date of this prospectus without first obtaining the written consent of the representatives. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly:

- offer, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file or make a confidential submission of a registration statement related to the common stock; or

- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The representatives have no present intention to waive or shorten the lock-up period; however, the terms of the lock-up agreements may be waived at their discretion. In determining whether to waive the terms of the lock-up agreements, the representatives may base their decision on their assessment of the relative strengths of the securities markets and companies similar to ours in general, and the trading pattern of, and demand for, our securities in general.

Nasdaq Capital Market Listing

We expect the shares of Class A common stock to be approved for listing on the Nasdaq Capital Market under the symbol "SNAL."

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our Class A common stock. However, the representatives may engage in transactions that stabilize the price of our Class A common stock, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our Class A common stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the

option granted to them. "Naked" short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our Class A common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of Class A common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our Class A common stock or preventing or retarding a decline in the market price of our Class A common stock. As a result, the price of our Class A common stock may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the Nasdaq Capital Market, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Class A common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

Other Relationships

Some of the underwriters and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area (each a "Relevant State"), no shares of our Class A common stock have been offered or will be offered pursuant to the offering to the public in that Relevant State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the Prospectus Regulation, except that offers of shares may be made to the public in that Relevant State at any time under the following exemptions under the Prospectus Regulation:

a. to any legal entity which is a qualified investor as defined under the Prospectus Regulation;

b. to fewer than 150 natural or legal persons (other than qualified investors as defined under the Prospectus Regulation), subject to obtaining the prior consent of the representatives for any such offer; or

c. in any other circumstances falling within Article 1(4) of the Prospectus Regulation;

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

Each person in a Relevant State who initially acquires any shares of our Class A common stock or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with us and the underwriters that it is a qualified investor within the meaning of the Prospectus Regulation.

In the case of any shares of our Class A common stock being offered to a financial intermediary as that term is used in Article 5(1) of the Prospectus Regulation, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public other than their offer or resale in a Relevant State to qualified investors, in circumstances in which the prior consent of the underwriters has been obtained to each such proposed offer or resale.

We, the underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares of our Class A common stock in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for any shares, and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

The above selling restriction is in addition to any other selling restrictions set out below.

In connection with the offering, the underwriters are not acting for anyone other than us and will not be responsible to anyone other than us for providing the protections afforded to their clients nor for providing advice in relation to the offering.

Notice to Prospective Investors in the United Kingdom

In relation to the United Kingdom ("UK"), no shares of our Class A common stock have been offered or will be offered pursuant to the offering to the public in the UK prior to the publication of a prospectus in relation to the shares which has been approved by the Financial Conduct Authority in the UK in accordance with the UK Prospectus Regulation and the FSMA, except that offers of shares may be made to the public in the UK at any time under the following exemptions under the UK Prospectus Regulation and the FSMA:

a. to any legal entity which is a qualified investor as defined under the UK Prospectus Regulation;

b. to fewer than 150 natural or legal persons (other than qualified investors as defined under the UK Prospectus Regulation), subject to obtaining the prior consent of the representatives for any such offer; or

c. at any time in other circumstances falling within section 86 of the FSMA;

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Section 85 of the FSMA or Article 3 of the UK Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

Each person in the UK who initially acquires any shares of our Class A common stock or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with us and the underwriters that it is a qualified investor within the meaning of the UK Prospectus Regulation.

In the case of any shares of our Class A common stock being offered to a financial intermediary as that term is used in Article 5(1) of the UK Prospectus Regulation, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public other than their offer or resale in the UK to qualified investors, in circumstances in which the prior consent of the underwriters has been obtained to each such proposed offer or resale.

We, the underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares in the UK means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our Class A common stock to be offered so as to enable an investor to decide to purchase or subscribe for any shares, the expression "UK Prospectus Regulation" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, and the expression "FSMA" means the Financial Services and Markets Act 2000.

In connection with the offering, the underwriters are not acting for anyone other than the issuer and will not be responsible to anyone other than the issuer for providing the protections afforded to their clients nor for providing advice in relation to the offering.

This document is for distribution only to persons who (i) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended ("FSMA")) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Notice to Prospective Investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, us or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA ("FINMA"), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any

other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus, you should consult an authorized financial advisor.

Notice to Prospective Investors in Australia

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission ("ASIC"), in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the "Corporations Act"), and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the shares may only be made to persons (the "Exempt Investors") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), "professional investors" (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

Notice to Prospective Investors in Hong Kong

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Japan

The shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the shares were not offered or sold or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares, has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b. a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

a. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

b. where no consideration is or will be given for the transfer;

c. where the transfer is by operation of law; or

d. as specified in Section 276(7) of the SFA.

In connection with 309B of the SFA and the Capital Markets Products (the "CMP") Regulations 2018, the shares are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore Notice SFA 04-N12: Notice on the Sale of Investment Products and Monetary Authority of Singapore Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Canada

The shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

LEGAL MATTERS

The validity of the shares of our Class A common stock offered hereby will be passed upon for us by Davis Polk & Wardwell LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by Greenberg Traurig, LLP, McLean, Virginia.

EXPERTS

The consolidated financial statements of Snail Games USA Inc. as of December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, included in this prospectus and registration statement have been so included in reliance on the report of BDO USA, LLP, an independent registered public accounting firm, appearing elsewhere herein and in the registration statement, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of Class A common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information about us and the shares of Class A common stock offered hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and in each instance, such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. You can read our SEC filings, including the registration statement, at the SEC's website which contains reports, proxy and information statements and other information regarding registrants, like us, that file electronically with the SEC. The address of the website is *www.sec.gov*.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act and, in accordance with this law, will file periodic reports, proxy and information statements and other information with the SEC. These periodic reports, proxy and information statements and other information will be available for inspection at the website of the SEC referred to above. We also maintain a website at *www.snailgamesusa.com*. Upon completion of this offering, you may access these materials free of charge as soon as reasonably practicable after they are filed electronically with, or furnished to, the SEC. The inclusion of our website address in this prospectus is an inactive textual reference only. The information contained on, or that can be accessed through, our website is not incorporated by reference into, and is not a part of, this prospectus or the registration statement of which this prospectus forms a part. Investors should not rely on any such information in deciding whether to purchase our Class A common stock.

Snail Games USA Inc. and Subsidiaries

Contents

Report of Independent Registered Public Accounting Firm

Board of Directors
Snail Games USA Inc. and Subsidiaries
Culver City, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Snail Games USA Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

We have served as the Company's auditor since 2021.

Costa Mesa, California

May 26, 2022

Consolidated Financial Statements

Snail Games USA Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,164,338	$ 27,587,970
Accounts receivable, net of allowances for doubtful accounts of $31,525 and $31,525, respectively	12,244,785	12,938,797
Accounts receivable – related party	8,435,823	9,718,484
Loan and interest receivable – related party	203,408	—
Prepaid expenses – related party	3,145,000	4,125,000
Prepaid expenses and other current assets	11,017,007	6,881,596
Total current assets	45,210,361	61,251,847
Restricted cash and cash equivalents	6,389,777	6,314,737
Property, plant and equipment, net	5,678,701	6,638,943
Intangible assets, net – license – related parties	8,787,976	34,768,496
Intangible assets, net – license	250,000	850,000
Intangible assets, net – other	277,148	284,187
Deferred income taxes	8,191,051	5,031,258
Other noncurrent assets	199,919	2,009,576
Operating lease right-of-use assets, net	5,100,912	6,466,750
Total assets[(1)]	$ 80,085,845	$123,615,794
LIABILITIES, NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities:		
Accounts payable	$ 3,871,510	$ 5,415,503
Accounts payable to parent	23,733,572	23,826,520
Accrued expenses and other liabilities	2,975,475	5,690,459
Loan payable – related parties	400,000	400,000
Interest payable – related parties	528,439	520,439
Revolving loan	9,000,000	2,500,000
Current portion of notes payable	216,329	189,808
Current portion of deferred revenue	11,005,517	18,407,746
Current portion of long-term debt	77,348	6,808,326
Current portion of operating lease liabilities	1,688,965	1,548,734
Total current liabilities	53,497,155	65,307,535
Accrued expenses	—	1,337,162
Long-term notes payable, net of current portion	—	445,002
Deferred revenue, net of current portion	9,275,417	16,121,589
Long-term debt, net of current portion	2,885,434	—
Operating lease liabilities, net of current portion	4,375,786	6,064,750
Total liabilities	70,033,792	89,276,038
Commitments and contingencies		
Equity:		
Common stock, $0.01 par value, 1,000,000 shares authorized, 500,000 shares issued and outstanding	5,000	5,000
Additional paid-in capital	94,159,167	94,159,167
Due from shareholder – loan receivable	(91,388,176)	(60,744,134)
Due from shareholder – interest receivable	(2,965,346)	(1,442,197)
Accumulated other comprehensive loss	(266,557)	(197,174)
Retained earnings	16,045,231	7,576,835
Total Snail Games USA Inc. equity	15,589,319	39,357,497
Noncontrolling interests	(5,537,266)	(5,017,741)
Total equity	10,052,053	34,339,756
Total liabilities, noncontrolling interests and equity	$ 80,085,845	$123,615,794

(1) The Company's consolidated balance sheets include the assets of its variable interest entity ("VIE"). The consolidated balance sheets include total assets of the VIE totaling $0 and $419,714 as of December 31, 2021 and 2020, respectively. See Note 1 — Basis of Presentation and Consolidation for further detail.

See accompanying notes to consolidated financial statements.

Snail Games USA Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years Ended December 31,	2021	2020	2019
Revenues, net	$106,734,149	$124,944,507	$ 86,307,757
Cost of revenues	63,686,242	67,303,679	78,139,792
Gross profit	43,047,907	57,640,828	8,167,965
Operating expenses:			
General and administrative	16,396,958	22,875,058	20,302,331
Research and development	834,818	1,375,264	1,950,114
Advertising and marketing	275,370	1,142,848	657,301
Depreciation and amortization	798,813	904,647	973,043
Loss on disposal of fixed assets	117,316	121,638	—
Impairment of intangible assets	16,325,000	1,269,000	—
Total operating expenses	34,748,275	27,688,455	23,882,789
Income (Loss) from operations	8,299,632	29,952,373	(15,714,824)
Other income (expense):			
Interest income	85,276	71,288	93,913
Interest income – related parties	1,595,372	935,532	454,841
Interest expense	(415,793)	(559,175)	(1,471,134)
Interest expense – related parties	(8,000)	(8,000)	(56,323)
Other income	493,687	540,884	43,055
Gain on sale of membership interest of equity investment	—	4,903,502	—
Foreign currency transaction gain (loss)	(41,579)	24,634	—
Equity in earnings (loss) of unconsolidated entity	(314,515)	699,434	(1,064,315)
Total other income (loss), net	1,394,448	6,608,099	(1,999,963)
Income (Loss) before provision for (benefit from) income taxes	9,694,080	36,560,472	(17,714,787)
Income tax provision (benefit from)	1,784,549	6,806,747	(2,497,759)
Net income (loss)	7,909,531	29,753,725	(15,217,028)
Net loss attributable to non-controlling interests	(558,865)	(933,130)	(1,272,097)
Net income (loss) attributable to Snail Games USA, Inc.	**8,468,396**	**30,686,855**	**(13,944,931)**
Comprehensive income statement:			
Other comprehensive loss	(69,383)	(97,337)	(70,711)
Total other comprehensive income (loss)	**$ 8,399,013**	**$ 30,589,518**	**$(14,015,642)**

See accompanying notes to consolidated financial statements.

Snail Games USA Inc. and Subsidiaries

Consolidated Statements of Equity

	Common Stock		Additional Paid-In-Capital	Due from Shareholder Loan and Interest Receivable	Accumulated Other Comprehensive Loss	Retained Earnings	Snail Games USA, Inc. Equity	Non controlling Interest	Total Equity
	Shares	Amount							
Balance at January 1, 2019	**500,000**	**$5,000**	**$94,159,167**	**$ (9,090,625)**	**$ (29,126)**	**$ (9,165,089)**	**$ 75,879,327**	**$(2,812,514)**	**$ 73,066,813**
Loan to shareholder	—	—	—	(27,052,267)	—	—	(27,052,267)	—	(27,052,267)
Foreign currency translation	—	—	—	—	(70,711)	—	(70,711)	—	(70,711)
Net loss	—	—	—	—	—	(13,944,931)	(13,944,931)	(1,272,097)	(15,217,028)
Balance at December 31, 2019	**500,000**	**5,000**	**94,159,167**	**(36,142,892)**	**(99,837)**	**(23,110,020)**	**34,811,418**	**(4,084,611)**	**30,726,807**
Loan to shareholder	—	—	—	(26,043,439)	—	—	(26,043,439)	—	(26,043,439)
Foreign currency translation	—	—	—	—	(97,337)	—	(97,337)	—	(97,337)
Net income	—	—	—	—	—	30,686,855	30,686,855	(933,130)	29,753,725
Balance at December 31, 2020	**500,000**	**5,000**	**94,159,167**	**(62,186,331)**	**(197,174)**	**7,576,835**	**39,357,497**	**(5,017,741)**	**34,339,756**
Loan to shareholder	—	—	—	(32,167,191)	—	—	(32,167,191)	—	(32,167,191)
Dissolution of subsidiary	—	—	—	—	—	—	—	39,340	39,340
Foreign currency translation	—	—	—	—	(69,383)	—	(69,383)	—	(69,383)
Net income	—	—	—	—	—	8,468,396	8,468,396	(558,865)	7,909,531
Balance at December 31, 2021	**500,000**	**$5,000**	**$94,159,167**	**$(94,353,522)**	**$ (266,557)**	**$ 16,045,231**	**$ 15,589,319**	**$(5,537,266)**	**$ 10,052,053**

See accompanying notes to consolidated financial statements.

Snail Games USA Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2021	2020	2019
Cash flows from operating activities:			
Net income (loss)	$ 7,909,531	$ 29,753,725	$(15,217,028)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization – intangible assets – license	600,000	600,000	600,000
Amortization – intangible assets – license, related parties	14,655,520	13,005,081	43,042,303
Amortization – intangible assets – other	7,039	159,158	581,280
Depreciation and amortization – property and equipment	798,813	904,647	973,043
Amortization – loan origination costs	22,951	26,020	—
Gain on paycheck protection program loan forgiveness	(392,200)	(144,000)	—
Loss on disposal of fixed assets	117,316	121,638	—
Impairment or loss on disposal of impaired intangible asset	16,325,000	1,269,000	—
Equity in (earnings) loss of unconsolidated entity	—	(699,434)	1,064,315
Gain on sale of membership interest	—	(4,903,502)	—
Interest income from shareholder loan	(1,523,149)	(935,532)	(453,469)
Deferred taxes	(3,159,791)	(957,525)	(2,508,621)
Decrease in non-controlling interest – dissolution of subsidiary	39,340	—	—
Changes in assets and liabilities:			
Accounts receivable	693,981	(1,574,498)	17,574,608
Accounts receivable – related party	1,256,970	2,695,911	(9,608,632)
Prepaid expenses – related party	980,000	(4,125,000)	—
Prepaid expenses	(4,167,621)	(1,684,764)	1,264,609
Other noncurrent assets	1,785,730	(318,834)	(12,041)
Accounts payable	(1,538,468)	2,036,311	(2,844,333)
Accounts payable to parent – related party	(92,948)	100,094	898,446
Accrued expenses	(4,045,216)	6,120,688	447,390
Interest payable – related parties	8,000	8,022	(85,154)
Lease liabilities	(182,895)	(119,933)	(45,176)
Deferred revenue	(14,248,401)	7,156,443	19,539,149
Net cash provided by operating activities	15,849,502	48,493,716	55,210,689
Cash flows from investing activities:			
Loan and interest receivable – related party	(203,408)	—	—
Loan provided to related party	(30,644,042)	(25,107,907)	(26,598,798)
Proceeds from sale of membership interest	—	7,000,000	—
Acquisition of intangible assets – other	—	(2,500)	(120,531)
Acquisition of license rights – related party	(5,000,000)	—	(5,000,000)
Purchases of property and equipment	—	(30,322)	(265,562)
Net cash used in investing activities	(35,847,450)	(18,140,729)	(31,984,891)
Cash flows from financing activities:			
Repayments on long-term debt	(6,845,545)	(5,391,671)	(24,850,003)
Repayments on line of credit	—	(4,950,000)	—
Borrowings on long-term debt	3,000,000	5,000,000	550,000
Repayments on loan payable to related party	—	—	(7,000,000)
Borrowings from related parties	—	—	1,300,000
(Payments) borrowings on paycheck protection program and economic injury disaster loan	(26,281)	778,810	—
Borrowings (repayments) on revolving loan	6,500,000	(3,000,000)	—
Net cash provided by (used in) financing activities	2,628,174	(7,562,861)	(30,000,003)
Effect of currency translation on cash and cash equivalents	21,182	(108,915)	(84,895)
Net (decrease) increase in cash and cash equivalents, and restricted cash and cash equivalents	(17,348,592)	22,681,211	(6,859,100)
Cash and cash equivalents, and restricted cash and cash equivalents – beginning of year	33,902,707	11,221,496	18,080,596
Cash and cash equivalents, and restricted cash and cash equivalents – end of year	**$ 16,554,115**	**$ 33,902,707**	**$ 11,221,496**
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 405,251	$ 534,351	$ 1,562,950
Income taxes	$ 6,577,000	$ 9,400,000	$ 1,624,453
Noncash transactions during the year for:			
Notes receivable on sale of membership interest	$ —	$ 1,500,000	$ —

See accompanying notes to consolidated financial statements.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 — PRESENTATION AND NATURE OF OPERATIONS

Snail Games USA Inc. is devoted to researching, developing, marketing, publishing, and distributing games, content and support that can be played on a variety of platforms including game consoles, PCs, mobile phones and tablets. The terms "Snail Games USA", "we", "our" and the "Company" are used to refer collectively to Snail Games USA Inc. and its subsidiaries.

The Company was founded in 2009 and is a wholly owned subsidiary of Suzhou Snail Digital Technology Co., Ltd. ("Suzhou Snail" or "Parent") located in Suzhou, China. The Company is a global developer and publisher of interactive entertainment content and support on video game consoles, personal computers, mobile devices, and other platforms.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles as promulgated in the United States of America ("GAAP").

Certain comparative amounts have been reclassified to conform with the current period presentation.

The consolidated financial statements include the accounts of Snail Games USA Inc. and the following subsidiaries:

Subsidiary Name	Equity% Owned
Snail Innovation Institute	70%
Frostkeep Studios, Inc.	100%
Eminence Corp	100%
Wandering Wizard, LLC	100%
Donkey Crew Limited Liability Company	99%
Interactive Films, LLC	100%
Project AWK Productions, LLC	100%
BTBX.io, LLC	70%
Elephant Snail, LLC (through April 15, 2021)	51%

All intercompany accounts, transactions, and profits have been eliminated upon consolidation.

The consolidated financial statements were prepared and presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation. Non-controlling interests represent the portion of earnings that is not within the Company's control. These amounts are required to be reported as equity instead of as a liability on the consolidated balance sheets. ASC 810 requires net income or net loss from non-controlling interests to be shown separately on the consolidated statements of operations and comprehensive income (loss).

The Company is also required to consolidate any variable interest entities ("VIEs"), of which it is the primary beneficiary, as defined. As of December 31, 2020, Elephant Snail, LLC was a VIE due to the promissory note between the entity and the Company to support its operations and the Company consolidated Elephant Snail, LLC as the primary beneficiary. On April 15, 2021, Elephant Snail, LLC, filed the dissolution and winding up of the Limited Liability Company. As a result of the dissolution, the Company incurred a $314,515 loss from investment. The following table represents the assets of the variable interest entity and the intercompany loan from Snail Games as of December 31, 2020, which was eliminated upon consolidation:

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 — PRESENTATION AND NATURE OF OPERATIONS (continued)

	December 31, 2020
Assets:	
Cash	$144,451
Prepaid expense	1,100
Other noncurrent assets	274,163
Total assets	$419,714
Liabilities	
Intercompany loan from Snail Games	$500,000
Total liabilities	$500,000

On January 29, 2021, the Company set up a 100% owned subsidiary Interactive Films, LLC. The purpose of Interactive Films, LLC is to develop and publish interactive video games.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Such estimates include revenue recognition, including the estimation of the fair value allocation to distinct and separable performance obligations, provisions for doubtful accounts, deferred income tax assets and associated valuation allowances, deferred revenue and associated service period over which to defer recognition of revenue, income taxes, valuation of intangibles, including those with related parties, impairment of intangible assets, and VIE considerations. These estimates generally involve complex issues and require management to make judgments, involve analysis of historical and future trends that can require extended periods of time to resolve, and are subject to change from period to period. In all cases, actual results could differ materially from estimates.

Segment Reporting

The Company has one operating and reportable segment. Our operations involve similar products and customers worldwide. Revenue earned is primarily derived from the sale of software titles, which are developed internally or licensed from related parties. Financial information about our segment and geographic regions is included in Note 3 — Revenue from Contracts with Customers.

COVID-19

Since the start of the coronavirus pandemic early in 2020, the Company has made sustained efforts to ensure the health and safety of the workforce while ensuring continuity of the business. In the workplace, the Company has designed and implemented protocols for social distancing, made provisions for the workforce to work remotely where possible, and established quarantine policies for those who present COVID-like symptoms or may have been in contact with those who have. Further, the Company keeps current with local, state, federal and international laws and restrictions that could affect the business and provide real-time information to the workforce. The Company has its own policies relating to health and is committed to compliance with COVID-19 policies.

As has been the case with many other employers, since the start of 2021, the Company has encouraged its workforce to receive vaccinations against COVID-19 through various means, including incentive programs. However, new variants have engendered a resurgence of the virus in many regions, particularly among the unvaccinated. In-the-midst of changing conditions, the Company has nevertheless been able to manage its business with minimal impact during the years ended December 31, 2021 and 2020.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company's revenue includes the publishing of software games delivered digitally and through physical discs (e.g., packaged goods). The Company's digital games may include additional downloadable content that are new feature releases to digital full-game downloads. Revenue also includes sales of mobile in-app purchases that require the Company's hosting support in order to utilize the game or related content. Such games include virtual goods that can be purchased by the end users, as desired. When control of the promised products and services is transferred to the customers, the Company recognizes revenue in the amount that reflects the consideration it expects to receive in exchange for these products and services. Revenue from delivery of products is recognized at a point in time when the end consumers download the games and the control of the license is transferred to them.

The Company recognizes revenue using the following five steps as provided by ASC Topic 606 *Revenue from Contracts with Customers*: 1) identify the contract(s) with the customer; 2) identify the performance obligations in each contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when, or as, the entity satisfies a performance obligation. The Company's terms and conditions vary by customers and typically provide net 30 to 75 days terms or 45 days after each quarter ends.

Principal vs Agent Consideration

The Company offers certain software products via third-party digital storefronts, such as Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store, the Apple App Store, the Google Play Store, and retail distributor. For sales of our software products via third-party digital storefronts and retail distributor, we determine whether or not we are acting as the principal in the sale to the end user, which we consider in determining if revenue should be reported based on the gross transaction price to the end user or based on the transaction price net of fees retained by the third-party digital storefront. An entity is the principal if it controls a good or service before it is transferred to the customer. Key indicators that we use in evaluating these sales transactions include, but are not limited to, the following:

- The underlying contract terms and conditions between the various parties to the transaction;
- Which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- Which party has discretion in establishing the price for the specified good or service.

Based on our evaluation of the above indicators, for sales arrangements via Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store, and retail distributor, the digital platforms and distributors have discretion in establishing the price for the specified good or service and we have determined we are the agent in the sales transaction to the end user and therefore we report revenue on a net basis based on the consideration received from the digital storefront. For sales arrangements via the Apple App Store and the Google Play Store, we have discretion in establishing the price for the specified good or service and we have determined that we are the principal to the end user and thus report revenue on a gross basis and mobile platform fees charged by these digital storefronts are expensed as incurred and reported within cost of revenues.

Contract Balance

The Company records deferred revenue when cash payments are received or due in advance of its performance, even if amounts are refundable.

Deferred revenue is comprised of the transaction price allocable to the Company's performance obligation on technical support and the sale of virtual goods available for in-app purchases, and payments

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

received from customers prior to launching the games on the platforms. The Company categorizes the virtual goods as either "consumable" or "durable." Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, the Company recognizes revenues from the sale of consumable virtual goods as the goods are consumed and the performance obligation is satisfied. Durable virtual goods represent goods that are accessible to the players over an extended period of time; accordingly, the Company recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player and the performance obligation is satisfied, which is generally the estimated service period.

The Company also has a long-term title license agreement ("game pass") with Microsoft for a period of three years. The Company recognizes deferred revenue and amortizes this revenue according to the terms of the relevant agreement. The agreement was initially made between the parties in November 2018 and valid through December 31, 2021. The agreement was subsequently amended in June 2020 to extend the *ARK 1* game pass perpetually effective January 1, 2022 and to put *ARK 2* on game pass for three years upon release.

Estimated Service Period

For certain performance obligations satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products ("user life") which most faithfully depicts the timing of satisfying our performance obligation. We consider a variety of data points when determining and subsequently reassessing the estimated service period for players of our software products. Primarily, we review the weighted average number of days between players' first and last days played online. When a new game is launched and no history of online player data is available, we consider other factors to determine the user life, such as the estimated service period of other games actively being sold with similar characteristics. We also consider known online trends, the service periods of our previously released software products, and, to the extent publicly available, the service periods of our competitors' software products that are similar in nature to ours. We believe this provides a reasonable depiction of the use of games by our customers, as it is the best representation of the period during which our customers play our software products. Determining the estimated service period is subjective and requires significant management judgment and estimates. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for virtual goods are generally approximately 30 to 100 days.

Shipping and Handling

The distributor, as the principal, is responsible for the shipping of the game discs to the retail stores and incurring the shipping costs. The Company is paid the net sales amount after deducting shipping costs and other related expenses by the distributor.

Cost of Revenues

Cost of revenues includes software license royalty fees, merchant fees, server and database center costs, game localization costs, game licenses and amortization costs. Cost of revenues for the years ended December 31, 2021 and 2020 comprised of the following:

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	2021	2020	2019
Software license royalties – related parties	$21,451,888	$25,456,716	$24,229,567
License and amortization – related parties	32,655,520	31,005,082	43,042,303
License and amortization	600,895	741,895	1,164,895
Game localization	47,100	2,520	—
Merchant fee	3,751,658	4,147,490	4,743,550
Engine fee	3,107,032	3,905,013	2,430,495
Internet, server and data center	2,072,149	2,044,963	2,528,982
Total	$63,686,242	$67,303,679	$78,139,792

Advertising Costs

The Company expenses advertising costs as incurred. For the years ended December 31, 2021, 2020 and 2019, advertising expense totaled $275,370, $1,142,848 and $657,301, respectively.

Research and Development

Research and development costs are expensed as incurred. Research and development costs include travel, payroll, and other general expenses specific to research and development activities. Research and development costs for the years ended December 31, 2021, 2020 and 2019 were $834,818, $1,375,264 and $1,950,114, respectively and is included in operating expenses on the accompanying consolidated statements of operations and comprehensive income (loss).

Non-controlling Interests

Non-controlling interests on the consolidated balance sheets, and consolidated statements of operations and comprehensive income (loss) include the equity allocated to non-controlling interest holders. As of December 31, 2021 and 2020, there were non-controlling interests with the following subsidiaries:

Subsidiary Name	Equity% Owned	Non-Controlling%
Snail Innovative Institute	70%	30%
BTBX.IO, LLC	70%	30%

As noted in Note 1, Elephant Snail LLC was dissolved in April 2021. As of December 31, 2021, the Company held non-controlling interests in Snail Innovative Institute and BTBX.IO, LLC at the percentages noted in the table above.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with insignificant interest rate risk and original or remaining maturities of three months or less at the time of purchase. Cash and cash equivalents are available for use in current operations or other activities such as capital expenditures and business combinations. Restricted cash and cash equivalents are time deposits, that are currently provided as securities to our debts with a financial institution, and the issuance of a standby letter of credit to landlords. See Note 19 — Leases for further detail.

Accounts Receivable

The Company generally records a receivable related to revenue when it has an unconditional right to invoice and receive payment. Accounts receivable are carried at original invoice amount less a reserve made

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

for doubtful accounts based on a review of all outstanding amounts on a periodic basis. The Company determines the allowance for doubtful accounts by evaluating customers' creditworthiness; historical experience; age of current accounts receivable balances; and changes in financial condition or payment terms of our customers. The allowance for doubtful accounts is typically immaterial and, if required, are based on management's best estimate. In estimating the allowance for doubtful accounts, the Company analyzes the age of current outstanding account balances, historical bad debts and customer concentrations. The provision for doubtful accounts is recorded as a charge to general and administrative expense when a potential loss is identified. Losses are written off against the allowance when the receivable is determined to be uncollectible. Significant management judgment is required to estimate our allowance for doubtful accounts in any accounting period. The amount and timing of our bad debt expense and cash collection could change significantly as a result of a change in any of the risk factors mentioned above.

Property, Plant and Equipment, Net

Property, plant and equipment, net, are stated at cost. Depreciation is calculated using the straight-line method over the following useful lives:

Buildings	39 years
Building improvements	7 years
Leasehold improvements	Lesser of the lease term or the estimated useful lives of the improvements, generally 5 to 15 years
Computer equipment and software	3 to 5 years
Furniture and fixtures	3 years
Auto and trucks	5 years

When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed, and any resulting gains or losses are included in the consolidated statements of operations and comprehensive income (loss). Leasehold improvements are amortized using the straight-line method over the estimated life of the asset, not to exceed the length of the lease. Repairs and maintenance costs are expensed as incurred.

Investments — Equity Method

The Company applies the equity method for investments in affiliates in which it has the ability to exercise significant influence over operating and financial policies of the affiliate. Significant influence is generally defined as 20% to 50% ownership in the voting stock of an investee or non-controlling power over management and operations. Under the equity method, the Company initially records the investment at cost and then adjusts the carrying value of the investment to recognize the proportional share of the equity-accounted affiliate's net income (loss) including changes in capital of the affiliate.

Foreign Currency

The functional currency for our foreign operations is primarily the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using exchange rates for assets and liabilities at the balance sheet date and average prevailing exchange rates for the period for revenue and expense accounts. Adjustments resulting from the translation are included in accumulated other comprehensive income (loss). Realized and unrealized transaction gains and losses arising from transactions denominated in foreign currencies different than the relevant functional currency are included in our consolidated statements of operations and comprehensive income (loss) in the period in which they occur.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets — License Usage Rights

The Company enters into license agreements with third-party developers and related party developers that require the Company to make payments for license usage rights and game development and production services. These license agreements grant the Company the exclusive publishing and distribution rights to game titles as well as, in some cases, the underlying intellectual property rights. These license agreements also specify the payment schedules, royalty rates and the relevant licensing period. The Company capitalizes the cost of license usage rights as intangible assets and amortizes them over the terms of the respective licensing rights.

Fair Value Measurements

The Company follows FASB ASC Topic 820, Fair Value Measurements. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value.

The three levels of inputs are as follows:

- **Level 1:** Quoted prices in active markets for identical assets or liabilities that the Company has an ability to access as of the measurement date.
- **Level 2:** Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Our financial instruments include cash and cash equivalents, restricted cash and cash equivalents, short-term financial instruments, short-term loans, accounts receivable, accounts payable and current liabilities. The carrying values of these financial instruments approximate their fair value due to their short maturities. The carrying amount of our debt approximates fair value because the interest rates on these instruments approximate the interest rate on debt with similar terms available to us for a similar duration. The Company re-measured the fair value of one of its intangible assets, *Atlas*, as of December 31, 2021 using level 3 inputs. Please refer to Note 12 — Intangible Assets for more details. The Company does not have any other assets or liabilities measured at fair value on a recurring or non-recurring basis at December 31, 2021 and 2020.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortizable Intangibles and Other Long-lived Assets

The Company's long-lived assets and other assets consisting of property, plant and equipment and purchased intangible assets, are reviewed for impairment in accordance with the guidance of the FASB ASC 360, Property, Plant, and Equipment.

Intangible assets subject to amortization are carried at cost less accumulated amortization and amortized over the estimated useful life in proportion to the economic benefits received. The Company evaluates the recoverability of definite-lived intangible assets and other long-lived assets in accordance with ASC Subtopic 360-10, which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. The Company considers certain events and circumstances in determining whether the carrying value of identifiable intangible assets and other long-lived assets, other than indefinite lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company's business strategy. If the Company determines that the carrying value may not be recoverable, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. There can be no assurance, however, that market conditions will not change or demand for the Company's products under development will continue. Either of these could result in future impairment of long-lived assets. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our consolidated reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. For the years ended December 31, 2021, 2020 and 2019, the Company recorded $16,325,000, $1,269,000 and $0 as impairment loss related to the *Atlas* game license rights from a related party, the analytic technology developed by its Frostkeep Studios, Inc. subsidiary, and no such impairment noted in 2019, respectively.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consisted of taxes currently due and deferred taxes. Deferred taxes are recognized for the differences between the basis of assets and liabilities for financial statement and income tax purposes.

The Company follows FASB ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns.

Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FASB ASC 740-10-25 provides criteria for the recognition, measurement, presentation, and disclosure of uncertain tax positions. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company recognized liabilities for uncertain tax positions pursuant to FASB ASC 740-10-25 in the amount of $693,913, $1,054,081 and $383,927 for

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the years ended December 31, 2021, 2020 and 2019, respectively. Such amounts are included in the current and deferred balances on the accompanying consolidated balance sheets.

Concentration of Credit Risk and Significant Customers

The Company maintains cash balances at several major financial institutions. While the Company attempts to limit credit exposure with any single institution, balances often exceed insurable amounts. As of December 31, 2021 and 2020, the Company had deposits of $15,135,863 and $31,812,014, respectively, that were not insured by the Federal Deposit Insurance Corporation.

The Company extends credit to various digital resellers and partners. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. The Company performs ongoing credit evaluations of customers and maintains reserves for potential credit losses. At December 31, 2021 and 2020, the Company had four customers who accounted for approximately 86% and 89% of consolidated gross receivables, respectively. Among the four customers as of December 31, 2021 and 2020, each customer accounted for 29%, 28%, 17% and 12% as of December 31, 2021, and 25%, 25%, 23% and 16% as of December 31, 2020, respectively, of the consolidated gross receivables outstanding. During the years ended December 31, 2021,2020 and 2019, approximately 68%, 80% and 66%, respectively, of net revenue was derived from these customers.

Leases

The Company has several leases relating primarily to office facilities. The Company determines if an arrangement is or contains a lease at contract inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The lease liability is measured as the present value of the unpaid lease payments, and the right-of-use asset value is derived from the calculation of the lease liability. Lease payments include fixed and in-substance fixed payments, variable payments based on an index or rate, reasonably certain purchase options, and termination penalties. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets. The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments because the Company does not have the information necessary to determine the rate implicit in the lease. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company's lease term includes any option to extend the lease when it is reasonably certain to be exercised based on considering all relevant factors. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and we recognize lease expense for these leases on a straight-line basis over the lease term. Operating leases are included in operating lease right-of-use assets, net, current portion of operating lease liabilities, and operating lease liabilities, net of current portion on the consolidated balance sheets.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The Company adopted this standard beginning on January 1, 2021. The adoption of the standard did not have a material impact on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investment — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic), and Derivatives and Hedging (Topic 815),* to

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

clarify the interaction among the accounting standards for equity securities, equity method investments and certain derivatives. The new ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments — Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The Company adopted this standard beginning on January 1, 2021. The adoption of the standard did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses*, which replaces the incurred loss impairment methodology in current US GAAP with a methodology that requires the reflection of expected credit losses and also requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. For most financial instruments, the standard requires the use of a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which generally results in the earlier recognition of credit losses on financial instruments. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements and expect to adopt ASC 2016-13 on January 1, 2023.

CARES Act

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property, the Company did not result in a material cash benefit as a result of these provision.

The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the Paycheck Protection Program ("PPP"), which is administered by the U.S. Small Business Administration ("SBA") and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. See Note 15 — Notes Payable for further detail.

NOTE 3 — REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

Geography

We attribute net revenue to geographic regions based on customer location. Net revenue by geographic region for the years ended December 31, 2021, 2020 and 2019 were as follows:

	2021	2020	2019
United States	$ 93,826,986	$109,123,834	$76,574,328
International	12,907,163	15,820,673	9,733,429
Total revenue from contract with customers	$106,734,149	$124,944,507	$86,307,757

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 3 — REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Platform

Net revenue by platform for the years ended December 31, 2021, 2020 and 2019 were as follows:

	2021	2020	2019
Net revenue recognized			
Console	$ 47,111,657	$ 60,927,126	$46,427,038
PC	43,096,994	46,492,920	22,658,127
Mobile	12,990,321	14,310,045	14,230,439
Other	3,535,177	3,214,416	2,992,153
Total revenue from contract with customers	$106,734,149	$124,944,507	$86,307,757

Distribution channel

Our products are delivered through digital online services (digital download, online platforms, and cloud streaming), mobile, and retail distribution and other. Net revenue by distribution channel was as follows:

	2021	2020	2019
Digital	$ 90,038,651	$107,335,314	$69,085,165
Mobile	12,990,321	14,310,046	14,230,439
Physical retail and other	3,705,177	3,299,147	2,992,153
Total revenue from contract with customers	$106,734,149	$124,944,507	$86,307,757

Deferred Revenue

The Company records deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations; reductions to deferred revenue balance were due primarily to the recognition of revenue upon fulfillment of our performance obligations, both of which were in the ordinary course of business. Activities in the Company's deferred revenues for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Deferred revenue, beginning balance in advance of revenue recognition billing	$ 34,529,335	$ 27,372,892
Revenue recognized	(26,478,997)	(27,520,639)
Revenue deferred	12,230,596	34,677,082
Deferred revenue, ending balance	20,280,934	34,529,335
Less: short term portion	(11,005,517)	(18,407,746)
Deferred revenue, long term	$ 9,275,417	$ 16,121,589

NOTE 4 — CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS

Cash equivalents are valued using quoted market prices or other readily available market information. The Company had $6,389,777 and $6,314,737 as of December 31, 2021 and 2020, respectively, as security for the debt with a financial institution (see Note 18 — Long-term debt) and to secure standby letters of credit

NOTE 4 — CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS (continued)

with landlords (see Note 19 — Leases). The following table summarizes the components of the Company's cash and cash equivalents, and restricted cash and cash equivalents as of December 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	$10,164,338	$27,587,970
Restricted cash and cash equivalents	6,389,777	6,314,737
Cash and cash equivalents, and restricted cash and cash equivalents	$16,554,115	$33,902,707

NOTE 5 — ACCOUNTS RECEIVABLE — RELATED PARTY

Accounts receivable — related party represents receivables in the ordinary course of business attributable to certain mobile game revenues that, for administrative reasons, are collected by a related party and that the related party has not remitted back to the Company. The accounts receivable are offset by payables due to the related party for royalties, internet data center ("IDC") and marketing costs. Accounts receivable — related party is non-interest bearing and due on demand. The related party is 100% owned and controlled by the wife of the Founder and Chairman of the Company, who is also the majority shareholder of the parent company. As of December 31, 2021 and 2020, the outstanding balance of net accounts receivable from related party was as follows:

	2021	2020
Accounts receivable – related party	$13,519,409	$15,145,401
Accounts payable – related party	(5,083,586)	(5,426,917)
Accounts receivable – related party, net	$ 8,435,823	$ 9,718,484

NOTE 6 — DUE FROM SHAREHOLDER

Due from shareholder is receivables from related party which consisted of monies that the Company lent to the Company's Founder and Chairman, who is also the majority shareholder of the parent company, the loan bears 2.00% per annum interest, both the loan receivable and the interest are due on demand. Total interest receivable from related party amounted to $2,965,346 and $1,442,197 as of December 31, 2021 and 2020, respectively. Both the loan receivable and the interest receivable are presented as contra equity in our consolidated statements of equity for a total of $94,353,522 and $62,186,331 as of December 31, 2021 and 2020, respectively.

In April 2022, the Company declared in-kind dividends in the form of distributing the shareholder loan and interest receivable to its parent entity Suzhou Snail. See Note 22 — Subsequent Events for further detail.

NOTE 7 — LOAN AND INTEREST RECEIVABLE — RELATED PARTY

In February 2021, the Company lent $200,000 to a sister company. The loan bears 2.00% per annum interest; interest and principal due in February 2022. Please refer to Note 14 — Loan Payable — Related Parties for the assignment of this loan to the Parent.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 8 — PREPAID ROYALTIES — RELATED PARTY, PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid royalties — related party, prepaid expenses and other current assets consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Prepaid royalties – related party	$ 3,145,000	$ 4,125,000
Prepaid income taxes	8,217,660	6,456,886
Other prepaids	861,332	27,629
Other current assets	1,938,015	397,081
	$14,162,007	$11,006,596

Prepaid royalties represent royalties paid but the related revenues were deferred.

NOTE 9 — PROPERTY, PLANT AND EQUIPMENT, net

Property, plant and equipment, net consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Building	$ 1,874,049	$ 1,874,049
Land	2,700,000	2,700,000
Building improvements	1,010,218	1,010,217
Leasehold improvements	1,537,775	1,946,958
Autos and trucks	267,093	267,093
Computer equipment and software	1,830,949	1,871,733
Furniture and fixtures	411,801	411,801
	9,631,885	10,081,851
Accumulated depreciation and amortization	(3,953,184)	(3,442,908)
Property, plant and equipment, net	$ 5,678,701	$ 6,638,943

Depreciation and amortization expense was $798,813, $904,647 and $973,043 for the years ended December 31, 2021, 2020 and 2019, respectively.

During the years ended December 31, 2021 and 2020, the Company disposed of $449,970 and $180,052 in assets with accumulated depreciation of $332,654, and $58,414, respectively, as of the disposal date. The total loss resulting from the disposal of assets amounted to $117,316 and $121,638 for the years ended December 31, 2021 and 2020, respectively. No such disposals were made in 2019.

NOTE 10 — EQUITY INVESTMENTS

The Company had an equity method investment in Pound Sand, LLC representing a 72.28% membership interest with an original investment amount of $7,000,000. Pound Sand, LLC's noncontrolling members hold substantive participating rights in management and operating decisions. Therefore, Pound Sand, LLC was accounted for under the equity method as the Company's interest is more than minor. On December 30, 2020, the Company entered into a membership interest redemption agreement with Pound Sand LLC and sold all of its rights, title and interests in membership units in Pound Sand, LLC, in exchange for $8,500,000. Concurrently with the execution of the redemption agreement, Pound Sand, LLC also entered into a membership interest pledge agreement with the Company to pledge 76.59 Class C Membership Units of Pound Sand, LLC as security to the secured subordinated note. Pursuant to the

NOTE 10 — EQUITY INVESTMENTS (continued)

terms of the redemption agreement, and concurrently with the execution of the membership interest pledge agreement, Pound Sand, LLC also executed and delivered a secured subordinated promissory note in the amount of $1,500,000 payable over two years, the note receivable bears 4.5% interest and matures on the second-year anniversary of the transaction date. On December 30, 2020, the Company received $7,000,000 of proceeds from the redemption of membership interests, and the remaining $1,500,000 is recorded as a note receivable, which is included as part of noncurrent assets on the consolidated balance sheets. As a result, the Company recognized a gain on sale of membership interest in the amount of $4,903,502 in fiscal year 2020. As of December 31, 2021, outstanding balance was $1,496,063, which is included as part of other currents assets on the consolidated balance sheet, and the balance was paid off in January 2022.

NOTE 11 — INVESTMENT AT COST

On May 3, 2021, the Company entered into a Subscription Letter Agreement and an Amended and Restated Limited Liability Company Agreement with Matrioshka to acquire 340 Preferred Units of Matrioshka Games, LLC for $895. The investment is included in the Other noncurrent assets in the consolidated balance sheets. Concurrently, on May 3, 2021, the Company entered into a Software Development Agreement with Matrioshka whereby it is agreed that Matrioshka will develop and produce a game, *Project Agartha*, and the Company will publish and service the game on an exclusive basis. Matrioshka is in the business of developing, manufacturing, publishing, licensing, distributing and selling interactive entertainment software and video game products. The investment in Matrioshka provides the Company with the ability to earn profits by publishing and servicing the game. As the Company does not control nor have significant influence over Matrioshka, the investment is being accounted for at cost less any impairment. No indicators of impairment were noted as of December 31, 2021. In connection with the Software Development Agreement, the Company had paid $250,000 in development fees during 2021 and expensed it as research and development in the accompanying consolidated statements of operations and comprehensive income (loss).

NOTE 12 — INTANGIBLE ASSETS

Intangible assets on trademark and technology consist of game license software underlying intellectual property rights, game trademark name, logo, and other branding items. The Company amortizes the intangible assets over its useful life.

During 2021, the Company impaired the *Atlas* license right due to delay in launching the game in several platforms. The Company recognized $16,325,000 as impairment loss during the year ended December 31, 2021, and the impairment was calculated based on revision to the discounted cash flow valuation using a 10% discount rate, which reflected the delay and decreased future cash flow. The following table sets all the intangible assets presented on the consolidated balance sheets as of December 31, 2021:

	December 31, 2021				
	Gross Carrying Amount	Accumulated Amortization	Impairment Loss	Net Book Value	Weighted Average Useful Life
License rights from related parties	$152,990,000	$(127,877,024)	$(16,325,000)	$8,787,976	3 – 5 years
License rights	$ 3,000,000	$ (2,750,000)	$ —	$ 250,000	5 years
Intangible assets – other:					
Software	$ 51,784	$ (50,908)	$ —	$ 876	3 years
Trademark	10,745	(5,359)	—	5,386	15 years
In-progress patent	270,886	—	—	270,886	
Total	$ 333,415	$ (56,267)	$ —	$ 277,148	

NOTE 12 — INTANGIBLE ASSETS (continued)

During 2020, the Company impaired the analytics technology related to the game developed by one of its subsidiaries, Frostkeep Studios, Inc. The Company believes that the analytics technology will no longer provide future value nor will the Company be investing further into the development game. Therefore, the Company recognized $1,269,000 as impairment loss during the year ended December 31, 2020. The following table sets all the intangible assets presented on the consolidated balance sheets as of December 31, 2020:

	December 31, 2020				
	Gross Carrying Amount	Accumulated Amortization	Impairment Loss	Net Book Value	Weighted Average Useful Life
License rights from related parties	$147,990,000	$(113,221,504)	$ —	$34,768,496	3 – 5 years
License rights	$ 3,000,000	$ (2,150,000)	$ —	$ 850,000	5 years
Intangible assets – other					
Analytics technology	$ 2,820,000	$ (1,551,000)	$(1,269,000)	$ —	5 years
Software	51,784	(44,764)	—	7,020	3 years
Trademark	10,745	(4,464)	—	6,281	15 years
In-progress patent	270,886	—	—	270,886	
Total	$ 3,153,415	$ (1,600,228)	$(1,269,000)	$ 284,187	

Amortization expense was $15,262,559, $13,764,239 and $44,223,583 for the years ended December 31, 2021, 2020 and 2019, respectively. These amounts are included in costs of sales in the accompanying consolidated statements of operations and comprehensive income (loss). Future amortization expense of intangible assets is as follows:

Years ending December 31,	Amount
2022	$7,655,690
2023	1,384,927
2024	804
2025	804
2026	743
Thereafter	272,156
	$9,315,124

NOTE 13 — ACCOUNTS PAYABLE TO PARENT

Accounts payable to Parent represent payables in the ordinary course of business primarily for purchases of game distribution licenses and also the royalties due to the Parent. During the years ended December 31, 2021, 2020 and 2019, the Company incurred $749,161, $836,483 and $1,275,397, respectively as license costs to parent.

NOTE 14 — LOAN PAYABLE — RELATED PARTIES

The Company had a loan amount due to related parties of $400,000 bearing 2.00% per annum interest. $300,000 of the loan is from a wholly owned subsidiary of the Parent and due in June 2022, and $100,000 is from the Parent and was due December 31, 2021. The Parent has signed an agreement during fiscal year

NOTE 14 — LOAN PAYABLE — RELATED PARTIES (continued)

2022 with the related party and was assigned the other receivable from the related party of $200,000 (see Note 7 — Loan and Interest Receivable — Related Party). The $100,000 due to the Parent was applied to the $200,000 related party receivable during fiscal year 2022. As of December 31, 2021 and 2020, total loan payable — related parties amounted to $400,000 and $400,000, respectively, and total unpaid interest amounted to $528,439 and $520,439, as of December 31, 2021 and 2020, respectively.

NOTE 15 — NOTES PAYABLE

The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. The application for these funds requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further requires the Company to take into account current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loans and qualifying for the forgiveness of such loans based on our future adherence to the forgiveness criteria. The Company has applied for, and has received, funds under the Paycheck Protection Program ("PPP") in the amount of $773,810. As of December 31, 2021 and 2020, the Company had total PPP notes payable outstanding of $216,329 and $634,810, respectively. During the years ended December 31, 2021 and 2020, the SBA forgave $392,200 and $144,000, respectively, of the PPP balance, and no such PPP in 2019. As a result, the Company recorded a gain of $392,200, $144,000 and $0 within other income in the consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2021, 2020 and 2019, respectively. The Company pursued and received forgiveness for the PPP loan balance of $169,436 and paid the rest of the balance during fiscal year 2022.

NOTE 16 — LINE OF CREDIT

On April 18, 2018, the Company entered into a facility agreement with a financial institution in the amount of $4,950,000. The line matured on July 18, 2019 and was further extended to July 18, 2020. The line of credit was secured by the Standby Letter of Credit issued by Bank of Ningbo in the amount of $5,000,000. The Standby Letter of Credit was guaranteed by the Company's Parent. The Company paid off the line of credit on April 18, 2020, and the related $1,000,000 restriction on the cash balance was removed.

NOTE 17 — REVOLVER LOAN

On June 17, 2021, the Company amended and restated its revolving loan ("Revolver") and security agreement. The revolving loan, as amended, matures on December 31, 2023, and the maximum amount of revolving line of credit was increased to $9,000,000 with an annual interest rate equal to the Prime Rate less 0.25%. The revolver is secured by the certificate of deposit accounts held with the financial institution. The applicable interest rate as of December 31, 2021 and 2020 was 3.375%. As of December 31, 2021 and 2020, the total outstanding amount on the revolving loan was $9,000,000 and $2,500,000, respectively. In connection with the amended debt agreements, the Company also revised its financial covenants. The revised agreements require that the Company maintain a minimum debt service coverage ratio of 1.50 to 1.00. The Company is in compliance with or received a waiver in the event of noncompliance, with its debt covenants as of December 31, 2021 and 2020.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 18 — LONG-TERM DEBT

On December 26, 2018, the Company entered into a security agreement with a financial institution. Certain deposit accounts maintained with the lender are being used as a cash collateral account. The Company recorded these cash deposits as restricted cash.

As of January 1, 2021, the Company had a promissory note that had been issued in 2018 ("2018 Promissory Note") and another promissory note that had been issued in 2020 ("2020 Promissory Note"). On June 17, 2021, the Company amended the 2018 Promissory Note and 2020 Promissory Note together with the Revolver (see Note 17 — Revolver Loan) to reduce the principal amount of the notes to $3,000,000. The loan matures on June 30, 2031, with an annual interest rate of 3.5% for the first 5 years and then floating at the Wall Street Journal prime rate from years 6 to 10. The applicable interest rate as of December 31, 2021 was 3.5%. The loan is secured by the Company's real estate. In connection with the amended debt agreements, the Company also revised its financial covenants. The revised agreements require that the Company maintain a minimum debt service coverage ratio of 1.50 to 1.00 and cash dividends are limited. The Company is in compliance with or received a waiver in the event of noncompliance, with its debt covenants as of December 31, 2021 and 2020.

Long-term debt is summarized as follows:

	2021	2020
2018 Promissory Note – Promissory notes with annual interest rate at prime plus 0.125% with interest payable monthly and commencing in April 2019; monthly principal payments in the amount of approximately $317,000 until maturity date and any outstanding balance due upon maturity (September 2021, as amended)	$ —	$2,849,993
2020 Promissory Note – On February 11, 2020, the Company entered into agreement with the relevant financial institution. The interest is calculated based upon the higher of 5% or 0.25% in excess of the wall street journal prime rate. Interest shall be due and payable monthly. The promissory note matures on February 11, 2024.	—	3,958,333
2021 Promissory Note – On June 17, 2021, the Company amended its loan agreement to reduce the principal amount with financial institution for 10 years, annual interest rate of 3.5% for the first 5 years, and then floating at Wall Street Journal rate from years 6 to 10, the loan is secured by the Company's building and matures on June 30, 2031	2,962,782	—
Total	2,962,782	6,808,326
Less: current portion	—	6,808,326
Total long-term debt	$2,962,782	$ —

Total interest expense for the notes above and Revolver amounted to $386,452, $498,555 and $1,471,134 for the years ended December 31, 2021, 2020 and 2019, respectively. Amortization of loan origination expenses of $22,951, $26,020 and $18,913 were included as part of interest expense for the years ended December 31, 2021, 2020 and 2019, respectively.

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 18 — LONG-TERM DEBT (continued)

The following table provides future minimum payments of its long-term debt as of December 31:

Years ending December 31,	Amount
2022	$ 77,348
2023	80,137
2024	82,748
2025	86,013
2026	89,115
Thereafter	2,547,421
	$2,962,782

NOTE 19 — LEASES

The Company's lease arrangements relate primarily to office facilities and are all classified as operating leases. In April 2018, a commercial bank issued an irrevocable standby letter of credit on behalf of the Company to the landlord for $1,075,000 to lease office space in Los Angeles, California. The standby letter of credit is valid for a one-year term and is collateralized by the time deposit in the amount of $1,075,000. On January 20, 2021, the standby letter of credit was amended and extended to January 31, 2026. These amounts are being recorded as restricted cash and cash equivalents on the Company's consolidated balance sheets.

During 2020, the Company sub-leased one property. For the years ended December 2021, 2020 and 2019, the Company received rent income from the sub-lessee in the amount of $434,119, $228,872 and $0, respectively. Due to the differences between sub-tenant payments and lease payments, $95,000 was owed to the landlord as of December 31, 2021. In May 2022, the Company entered into an agreement with the landlord to terminate the lease early with no penalty and paid off the balance due.

As of December 31, 2021, existing leases have remaining lease terms ranging from 0.7 years to 3.9 years. Components of lease costs are as follows:

	For the years ended December 31,		
	2021	2020	2019
Operating lease			
Operating lease costs	$1,980,873	$1,519,725	$1,900,089
Short term lease costs	—	87,724	120,650
Total operating lease costs	$1,980,873	$1,607,449	$2,020,739

Supplemental information related to operating leases is as follows:

	For the years ended December 31,		
	2021	2020	2019
Operating lease			
Cash paid for amounts included in the measurement of lease liabilities	$1,445,235	$1,855,538	$1,945,266
Weighted average remaining lease term	3.7 years	5.3 years	4.4 years
Weighted average discount rate	4.92%	4.77%	4.81%

Snail Games USA Inc. and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 19 — LEASES (continued)

Future undiscounted lease payments for operating leases and reconciliation of these payments to our operating lease liabilities at December 31, 2021 are as follows:

Years ending December 31,	Future lease payments	Imputed Interest	Lease Liabilities
		Amount	
2022	$1,943,034	$254,069	$1,688,965
2023	1,623,042	177,785	1,445,257
2024	1,610,844	105,810	1,505,034
2025	1,453,784	28,290	1,425,494
2026	—	—	—
Total future lease payments	$6,630,704	$565,954	$6,064,750

NOTE 20 — INCOME TAXES

The components of income (loss) before income taxes for the years ended December 31, 2021, 2020 and 2019 are as follows:

	2021	2020	2019
United States	$9,476,520	$36,106,434	$(17,832,127)
Foreign	217,560	454,038	117,340
	$9,694,080	$36,560,472	$(17,714,787)

The income tax provision (benefit) for the years ended December 31, 2021, 2020 and 2019 are as follows:

	2021	2020	2019
Current:			
U.S. federal	$ 4,975,632	$7,377,846	$ 6,062
U.S. State	(61,333)	264,388	4,800
Foreign	30,041	122,038	—
Total current income taxes	4,944,340	7,764,272	10,862
Deferred:			
U.S. federal	(2,988,575)	(938,907)	(2,402,952)
U.S. State	(174,984)	(14,850)	(105,669)
Foreign	3,768	(3,768)	—
Total deferred income taxes	(3,159,791)	(957,525)	(2,508,621)
Income tax provision (benefit)	$ 1,784,549	$6,806,747	$(2,497,759)

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Notes to Consolidated Financial Statements

NOTE 20 — INCOME TAXES (continued)

The provision (benefits) for income taxes differs from the amounts computed by applying the federal statutory tax rate of 21% to earnings before income taxes, as follows:

	2021	2020	2019
Federal statutory income tax rate	21.00%	21.00%	21.00%
Valuation allowance	3.50%	0.59%	(6.91)%
Net operating loss carryback refund	—	(4.78)%	—
State and local income taxes	(2.44)%	0.75%	—
Other	(3.65)%	1.05%	0.01%
	18.41%	18.61%	14.10%

At December 31, 2021, the Company's effective tax rate differed from the federal statutory rate of 21% primarily as a result of changes in valuation allowance on the Company's deferred tax assets, and other items including state income taxes, return to provision true-ups and various permanent differences.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Deferred tax assets (noncurrent):		
Net operating losses	$ 5,181,080	$ 4,740,321
Deferred revenue	3,959,110	3,287,009
Research and development credit	189,431	189,431
Book lease liability (ASC 842)	1,387,106	1,807,018
Fixed assets and intangibles	3,856,167	161,201
Other	639,219	1,772,518
Total deferred tax assets	15,212,113	11,957,498
Deferred tax liabilities (noncurrent):		
Fixed assets and intangible assets	—	—
Book ROU assets (ASC 842)	(1,168,823)	(1,543,686)
Total deferred tax liabilities:	(1,168,823)	(1,543,686)
Long-term deferred tax asset	14,043,290	10,413,812
Valuation allowance	(5,852,239)	(5,382,554)
Net deferred tax asset	$ 8,191,051	$ 5,031,258

Included in these consolidated financial statements are two entities that are not consolidated in the U.S. tax return filing due to less than 80% ownership by Snail Games USA Inc. As of December 31, 2021, the non-includable entities have U.S. federal net operating loss ("NOL") carryforwards of $3,117,395 which begin to expire in 2037 and $15,127,461 with an indefinite carryforward period. As of December 31, 2021, the non-includable entities have $16,452,832 of California NOL carryforwards, which begin to expire in 2037.

The Company maintained a valuation allowance of $5,852,239 and $5,382,554 as of December 31, 2021 and 2020, respectively, the valuation allowance relates primarily to the NOL of the non-includable entities mentioned above, which have had historical losses, and which management has assessed are not more likely than not to be able to realize those NOLs. As of December 31, 2021 and 2020, the Company had foreign NOL carryforwards of $13,866 and $499,013, respectively, all of which are fully reserved. Additionally, there

NOTE 20 — INCOME TAXES (continued)

is a full valuation allowance placed on the $647,000 deferred tax asset related to the investment that was written off for book purposes but not yet for tax in 2021. The Company has placed a full valuation allowance on this deferred tax asset due to its capital loss nature and the current lack of other capital gain items that could offset said future loss.

Based upon the level of historical taxable income and projections of future taxable income over the periods during which the deferred tax assets are deductible, except as noted above, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

As of December 31, 2021, the Company had foreign tax credit carryforwards of $192,000 which, if not utilized, begin to expire in 2027. The Company has booked an uncertain tax position reserve on the entire amount of foreign tax credit carryforwards due to uncertainty regarding their nature and future utilization.

The Company and its subsidiaries currently file tax returns in the United States (federal and state) and Poland. The statute of limitations for its consolidated federal income tax returns are open for tax years ended December 31, 2018 and after. The statute of limitations for its consolidated California income tax returns are open for tax years ended December 31, 2017 and after. All tax periods for its Polish subsidiary are currently subject to examination since its inception in 2018. While the Company has historically only filed a state tax return in California, management had accrued income tax liabilities for additional states at December 31, 2021 and 2020, respectively and is also undergoing the Voluntary Disclosure Agreement process in additional states.

After enactment of the Tax Cuts and Jobs Act ("TCJA") in 2017, any current earnings of a foreign subsidiary are subject to the Global Intangible Low-Taxed Income ("GILTI") tax and any future repatriation of foreign earnings back to the U.S. would be subject to a 100% dividends-received deduction, thus, not subject to additional federal taxes. The Company owns one foreign corporation, Donkey Crew, which is subject to the GILTI tax and will have a GILTI inclusion during the year ended December 31, 2021. It is Management's intent to permanently reinvest any future foreign earnings to support operations and business growth of its affiliated company in Poland. As such, no federal deferred tax liability was recorded on the unremitted earnings of the foreign subsidiary at December 31, 2021 and 2020. State deferred tax liability is deemed immaterial due to negative foreign earnings as of December 31, 2021 and 2020.

The following table reflects changes in gross unrecognized tax benefits for the years ended December 31, 2021 and 2020:

	2021	2020
Unrecognized tax benefits at beginning of year	$1,054,081	$ 383,928
Gross Increases – current year positions	—	657,386
Gross Increases – prior year positions	124,979	13,439
Gross Decreases – prior year positions	(485,147)	—
Gross Decreases – settlements	—	(672)
Unrecognized tax benefits at end of year	$ 693,913	$1,054,081

As of December 31, 2021 and 2020, the Company had $487,867 and $362,887, respectively, of unrecognized tax benefits that if recognized would impact the Company's effective tax rate. The Company accrued and recognized interest and penalties related to unrecognized tax benefits in operating expense. As of December 31, 2021 and 2020, the Company had accrued $9,257 and $1,959 of interest and penalties, respectively. The Company does not expect the amount to change within 12 months and is currently not under audit by any taxing jurisdictions.

NOTE 21 — COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to claims and contingencies related to lawsuits and other matters arising out to the normal course of business. In addition, we may receive notifications alleging infringement of patent or other intellectual property rights. The Company has elected to expense legal costs associated with legal contingencies as incurred. As of December 31, 2021 and 2020, the Company had an estimated accrual cost of $1,330,000 and $5,450,000, respectively, as a result of a pending litigation settlement. Such amounts are included in accrued expenses on the accompanying consolidated balance sheets. During 2021, the Company paid $4,120,000 as part of legal settlements and paid off the remaining litigation settlement accrual prior to April 30, 2022.

On December 1, 2021, the Company and Studio Wildcard sent a notice of claimed infringement (the "DCMA Takedown Notice") to Valve Corporation, which operates the Steam platform, pursuant to the Digital Millennium Copyright Act ("DCMA"). The DCMA Takedown Notice concerns a videogame titled *Myth of Empires*, which was developed by Suzhou Angela Online Game Technology Co., Ltd. ("Angela Game") and published by Imperium Interactive Entertainment Limited ("Imperium"). The DCMA Takedown Notice alleges that Angela Game and Imperium misappropriated the copyrighted source code of *ARK: Survival Evolved* and used it to develop the game *Myth of Empires*. The DCMA Takedown Notice requested that Steam cease distributing *Myth of Empires* and remove the game from the Steam platform. Steam complied with the DCMA Takedown Notice and removed *Myth of Empires* from its platform. The DCMA Takedown Notice was also sent to Tencent Cloud LLC ("Tencent"), which hosts the U.S. servers for users who downloaded the game before it was removed from Steam, but Tencent has not complied with the DCMA Takedown Notice.

On December 9, 2021, Angela Game and Imperium filed a complaint against the Company and Studio Wildcard in the United States District Court for the Central District of California in response to the DCMA Takedown Notice. The lawsuit seeks a declaratory judgment on non-liability for copyright infringement and non-liability for trade secret misappropriation, as well as unspecified damages for alleged misrepresentations in the DCMA Takedown Notice. Angela Game and Imperium also filed an application for a temporary restraining order asking the court to order us and Studio Wildcard to rescind the DCMA Takedown Notice so that Steam could once again reinstate *Myth of Empires* for download. On December 20, 2021, the Company and Studio Wildcard filed an answer to the complaint, which included counterclaims against Angela Game and Imperium and a third-party complaint against Tencent seeking unspecified damages resulting from the alleged copyright infringement and misappropriation of trade secrets in connection with the *ARK: Survival Evolved* source code. On December 23, 2021 the court denied the application for a temporary restraining order and issued an order to show cause as to why a preliminary injunction should not be issued. On January 31, 2022, a hearing was held on the order to show cause, and the court issued an order denying the preliminary injunction.

On February 3, 2022, Angela Game and Imperium appealed the order to the Ninth Circuit Court of Appeal, claiming that the district court judge abused her discretion in denying the injunction. The parties have filed the required briefs. The Ninth Circuit will hear argument in October or November 2022. Meanwhile, the district court has appointed a neutral expert to compare the parties' computer code and issue a report to the court about the extent of similarities. The parties have also retained their own experts to compare the code. The district court has set no discovery deadlines or a trial date. At this time, we are unable to quantify the magnitude of the potential loss should the plaintiffs' lawsuit succeed. The Company has not recorded any accrual as the legal costs are being borne by Studio Wildcard.

NOTE 22 — SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after December 31, 2021 through May 26, 2022, the date the consolidated financial statements were available to be issued. During this period,

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Notes to Consolidated Financial Statements

NOTE 22 — SUBSEQUENT EVENTS (continued)

the Company did not have any material recognizable subsequent events that would have been required to be disclosed as of and for the year ended December 31, 2021, other than the following:

- In January 2022, the Company amended its revolving loan and long-term debt to obtain an additional long-term loan with a principal balance of $10,000,000, which matures on January 26, 2023. Interest shall be equal to the higher of 3.75% and the prime rate plus 0.50%. In the event of default all outstanding amounts under the note will bear interest at a default rate equal to 5% over the note rate. The loan is secured and collateralized by the Company's existing assets. Debt covenants related to this loan require the Company to maintain a minimum debt service coverage ratio of at least 1.5 to 1 and will be measured quarterly. The Company paid a $15,000 loan origination fee.
- In January 2022, the Company received $1,500,000 from Pound Sand, LLC in connection with the Company's sale of its membership interest in Pound Sand, LLC on December 3, 2020. Such amount was included as a receivable in the other noncurrent assets as of December 31, 2021 and 2020, in the accompanying consolidated balance sheets.
- In February 2022, the Company entered into a non-binding term sheet for an exclusive license with SDE Inc., a related party, whereby the Company advanced a total amount of $5,000,000 in exchange for license rights to publish, develop, distribute, market, and commercially exploit the game, *ARK 2*. In April 2022, the Company executed the term sheet into an exclusive license agreement for 15 years of *ARK* 2, monthly licensing fee of $1,500,000 for a total of $18,000,000 per year plus 25% of royalty based on total revenue of *ARK* 2.
- On April 6, 2022, the Company received PPP forgiveness from the SBA in the amount of $169,436.
- On April 26, 2022, the Company distributed the due from shareholder — loan and receivable balances to Suzhou Snail, which assumed the loan as creditor. At the time of the distribution, $94,934,000 was outstanding, including interest. As a result of this distribution, the total withholding taxes amounted to $8,200,000, and paid on April 29, 2022. The Company received a waiver from Cathay Bank related to this distribution. As of the distribution date, due from shareholder — loan and interest receivables are no longer reflected within the Company's consolidated balance sheet as of April 26, 2022. See Note 15 — Notes Payable.

Condensed Consolidated Financial Statements
as of June 30, 2022 and for the Three and
Six Month Periods Ended June 30, 2022 and 2021
(Unaudited)

Snail Games USA Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$14,697,338	$ 10,164,338
Accounts receivable, net of allowances for doubtful accounts of $31,525 and $31,525, respectively	7,514,638	12,244,785
Accounts receivable – related party	10,941,404	8,435,823
Loan and interest receivable – related party	100,745	203,408
Prepaid expenses – related party	1,000,000	3,145,000
Prepaid expenses and other current assets	10,475,663	11,017,007
Total current assets	44,729,788	45,210,361
Restricted cash and cash equivalents	6,361,381	6,389,777
Prepaid expenses – related party	6,520,000	—
Property, plant and equipment, net	5,374,289	5,678,701
Intangible assets, net – license – related parties	5,086,017	8,787,976
Intangible assets, net – license	—	250,000
Intangible assets, net – other	275,824	277,148
Deferred income taxes	8,191,051	8,191,051
Other noncurrent assets	202,179	199,919
Operating lease right-of-use assets, net	4,166,498	5,100,912
Total assets	$80,907,027	$ 80,085,845
LIABILITIES, NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities:		
Accounts payable	$ 5,190,812	$ 3,871,510
Accounts payable – related parties	23,511,036	23,733,572
Accrued expenses and other liabilities	3,330,015	2,975,475
Loan payable – related parties	300,000	400,000
Interest payable – related parties	527,770	528,439
Revolving loan	9,000,000	9,000,000
Short term note	7,916,667	—
Current portion of long-term debt	78,719	77,348
Current portion of notes payable	—	216,329
Current portion of deferred revenue	8,121,311	11,005,517
Current portion of operating lease liabilities	1,310,011	1,688,965
Total current liabilities	59,286,341	53,497,155
Long-term debt, net of current portion	2,845,303	2,885,434
Deferred revenue, net of current portion	9,138,069	9,275,417
Operating lease liabilities, net of current portion	3,628,605	4,375,786
Total liabilities	74,898,318	70,033,792
Commitments and contingencies		
Equity:		
Common stock, $0.01 par value, 1,000,000 shares authorized, 500,000 shares issued and outstanding	5,000	5,000
Additional paid-in capital	12,881,055	94,159,167
Due from shareholder – loan receivable	—	(91,388,176)
Due from shareholder – interest receivable	—	(2,965,346)
Accumulated other comprehensive loss	(348,959)	(266,557)
Retained earnings (accumulated deficit)	(1,054,297)	16,045,231
Total Snail Games USA Inc. equity	11,482,799	15,589,319
Noncontrolling interests	(5,474,090)	(5,537,266)
Total equity	6,008,709	10,052,053
Total liabilities, noncontrolling interests and equity	$80,907,027	$ 80,085,845

See accompanying notes to condensed consolidated financial statements

Snail Games USA Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Revenues, net	$15,463,522	$31,202,966	$43,518,113	$58,839,179
Cost of revenues	11,386,885	17,150,572	26,275,902	32,902,734
Gross profit	4,076,637	14,052,394	17,242,211	25,936,445
Operating expenses:				
General and administrative	5,123,511	4,578,165	10,743,521	9,055,561
Research and development	179,050	239,796	363,006	371,409
Advertising and marketing	212,039	71,269	370,710	117,060
Depreciation and amortization	138,791	213,178	307,108	429,763
Total operating expenses	5,653,391	5,102,408	11,784,345	9,973,793
Income (loss) from operations	(1,576,754)	8,949,986	5,457,866	15,962,652
Other income (expense):				
Interest income	17,705	23,813	33,077	50,628
Interest income – related parties	130,695	376,435	581,623	708,233
Interest expense	(186,213)	(92,276)	(352,268)	(190,471)
Interest expense – related parties	(1,496)	(1,994)	(3,222)	(3,967)
Other income	296,969	19,233	299,653	451,543
Foreign currency transaction loss	7,916	(12,524)	5,510	(64,769)
Equity in loss of unconsolidated entity	—	(314,515)	—	(314,515)
Total other income (expense), net	265,576	(1,828)	564,373	636,682
Income (loss) before provision for income taxes	(1,311,178)	8,948,158	6,022,239	16,599,334
Income tax provision (benefit)	(327,347)	1,682,130	1,202,303	3,322,707
Net income (loss)	(983,831)	7,266,028	4,819,936	13,276,627
Net gain (loss) attributable to non-controlling interests	70,466	(195,610)	63,176	(363,618)
Net income (loss) attributable to Snail Games USA Inc.	**(1,054,297)**	**7,461,638**	**4,756,760**	**13,640,245**
Comprehensive income statement:				
Other comprehensive income (loss)	(31,199)	5,628	(82,402)	38,959
Total other comprehensive income (loss)	**$ (1,085,496)**	**$ 7,467,266**	**$ 4,674,358**	**$13,679,204**

See accompanying notes to condensed consolidated financial statements

Snail Games USA Inc. and Subsidiaries

Condensed Consolidated Statements of Equity (Unaudited)

	Common Stock		Additional Paid-In-Capital	Due from Shareholder Loan and Interest Receivable	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Snail Games USA Inc. Equity	Non controlling Interests	Total Equity
	Shares	Amount							
Balance at December 31, 2021	500,000	$5,000	$ 94,159,167	$(94,353,522)	$ (266,557)	$ 16,045,231	$15,589,319	$(5,537,266)	$10,052,053
Loan to shareholder	—	—	—	(450,681)	—	—	(450,681)	—	(450,681)
Foreign currency translation	—	—	—	—	(51,203)	—	(51,203)	—	(51,203)
Net income (loss)	—	—	—	—	—	5,811,057	5,811,057	(7,290)	5,803,767
Balance at March 31, 2022	**500,000**	**5,000**	**94,159,167**	**(94,804,203)**	**(317,760)**	**21,856,288**	**20,898,492**	**(5,544,556)**	**15,353,936**
Loan to shareholder	—	—	—	(130,197)	—	—	(130,197)	—	(130,197)
Dividend distribution	—	—	(81,278,112)	94,934,400	—	(21,856,288)	(8,200,000)	—	(8,200,000)
Foreign currency translation	—	—	—	—	(31,199)	—	(31,199)	—	(31,199)
Net income (loss)	—	—	—	—	—	(1,054,297)	(1,054,297)	70,466	(983,831)
Balance at June 30, 2022	**500,000**	**$5,000**	**$ 12,881,055**	**$ —**	**$ (348,959)**	**$ (1,054,297)**	**$11,482,799**	**$(5,474,090)**	**$ 6,008,709**

	Common Stock		Additional Paid-In-Capital	Due from Shareholder Loan and Interest Receivable	Accumulated Other Comprehensive Loss	Retained Earnings	Snail Games USA Inc. Equity	Non controlling Interests	Total Equity
	Shares	Amount							
Balance at December 31, 2020	500,000	$5,000	$94,159,167	$(62,186,331)	$ (197,174)	$ 7,576,835	$39,357,497	$(5,017,741)	$34,339,756
Loan to shareholder	—	—	—	(9,169,393)	—	—	(9,169,393)	—	(9,169,393)
Foreign currency translation	—	—	—	—	33,332	—	33,332	—	33,332
Net income (loss)	—	—	—	—	—	6,178,607	6,178,607	(168,008)	6,010,599
Balance at March 31, 2021	**500,000**	**5,000**	**94,159,167**	**(71,355,724)**	**(163,842)**	**13,755,442**	**36,400,043**	**(5,185,749)**	**31,214,294**
Loan to shareholder	—	—	—	(7,058,648)	—	—	(7,058,648)	—	(7,058,648)
Foreign currency translation	—	—	—	—	5,628	—	5,628	—	5,628
Dissolution of subsidiary	—	—	—	—	—	—	—	39,340	39,340
Net income (loss)	—	—	—	—	—	7,461,638	7,461,638	(195,610)	7,266,028
Balance at June 30, 2021	**500,000**	**$5,000**	**$94,159,167**	**$(78,414,372)**	**$ (158,214)**	**$21,217,080**	**$36,808,661**	**$(5,342,019)**	**$31,466,642**

See accompanying notes to condensed consolidated financial statements

Snail Games USA Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30,	2022	2021
Cash flows from operating activities:		
Net income	$ 4,819,936	$ 13,276,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization – intangible assets – license	250,000	300,000
Amortization – intangible assets – license, related parties	3,701,959	6,686,532
Amortization – intangible assets – other	448	5,259
Amortization – loan origination fees	12,557	13,518
Depreciation and amortization – property and equipment	307,108	429,763
Gain on lease termination	(122,533)	—
Gain on paycheck protection program and economic injury disaster loan forgiveness	(174,436)	(392,200)
Loss on disposal of fixed assets	2,433	—
Interest income from shareholder loan	(580,878)	(672,339)
Deferred taxes	—	(1,101)
Decrease in non-controlling interest – dissolution of subsidiary	—	39,340
Changes in assets and liabilities:		
Accounts receivable	4,730,110	(2,605,801)
Accounts receivable – related party	(2,505,580)	11,223,979
Prepaid expenses – related party	(4,375,000)	—
Prepaid expenses and other current assets	(984,632)	(3,172,996)
Other noncurrent assets	(15,944)	241,935
Accounts payable	1,323,972	(1,105,036)
Accounts payable – related parties	(222,536)	110,785
Accrued expenses	363,240	679,459
Interest payable – related parties	1,994	3,967
Lease liabilities	(69,188)	(86,728)
Deferred revenue	(3,021,554)	(5,185,176)
Net cash provided by operating activities	3,441,476	19,789,787
Cash flows from investing activities:		
Loan provided to related party	—	(15,555,702)
Acquisition of license rights – related party	—	(5,000,000)
Purchases of property and equipment	(5,256)	(4,812)
Repayment on Pound Sand note	1,496,063	—
Investment at cost	—	(895)
Net cash provided by (used in) investing activities	1,490,807	(20,561,409)
Cash flows from financing activities:		
Repayments on long-term debt	(38,759)	(6,808,326)
Repayments on short-term note	(2,083,333)	—
Borrowings on long-term debt	—	3,000,000

See accompanying notes to condensed consolidated financial statements

Snail Games USA Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)

Six months ended June 30,	2022	2021
Borrowings on short-term note	10,000,000	—
Payments on paycheck protection program and economic injury disaster loan	(90,198)	—
Refund of payments on paycheck protection program and economic injury disaster loan	48,305	—
Borrowings on revolving loan	—	6,500,000
Cash dividend declared and paid	(8,200,000)	—
Net cash (used in) provided by financing activities	(363,985)	2,691,674
Effect of currency translation on cash and cash equivalents	(63,694)	(306,587)
Net increase in cash and cash equivalents, and restricted cash and cash equivalents	4,504,604	1,613,465
Cash and cash equivalents, and restricted cash and cash equivalents – beginning of period	16,554,115	33,902,707
Cash and cash equivalents, and restricted cash and cash equivalents – end of period	**$ 21,058,719**	**$ 35,516,172**
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 339,710	$ 190,471
Income taxes	$ 828,012	$ 327,700
Noncash transactions during the period for:		
Loan and interest payable – related parties	$ 103,890	$ —
Loan and interest receivable – related parties	$ (103,890)	$ —
Loan and interest from shareholder	$ 94,934,400	$ —
Dividend distribution	$ (94,934,400)	$ —
Noncash financing activity during the period:		
Gain on paycheck protection program and economic injury disaster loan forgiveness	$ (174,436)	$ (392,200)

See accompanying notes to condensed consolidated financial statements

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 — PRESENTATION AND NATURE OF OPERATIONS

Snail Games USA Inc. is devoted to researching, developing, marketing, publishing, and distributing games, content and support that can be played on a variety of platforms including game consoles, PCs, mobile phones and tablets. The terms "Snail Games USA", "we", "our" and the "Company" are used to refer collectively to Snail Games USA Inc. and its subsidiaries.

The Company was founded in 2009 as a wholly owned subsidiary of Suzhou Snail Digital Technology Co., Ltd. ("Suzhou Snail") located in Suzhou, China. On July 13, 2022, Suzhou Snail transferred all of its right, title, and interest to all of the 500,000 shares of common stock of the Company ("Shares") to Snail Technology (HK) Limited ("Snail Technology"), an entity organized under the laws of Hong Kong, pursuant to the certain Share Transfer Agreement dated July 13, 2022 between Suzhou Snail and Snail Technology. Subsequently, Snail Technology transferred all of its right, title, and interest in the Shares to certain individuals per the Share Transfer Agreement. Because the Company and Suzhou Snail are owned by the same shareholders, Suzhou Snail is considered a related party to the Company. The Company is a global developer and publisher of interactive entertainment content and support on video game consoles, personal computers, mobile devices, and other platforms.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles as promulgated in the United States of America ("GAAP") for interim reporting. Accordingly, certain notes or other information that are normally required by U.S. GAAP have been condensed or omitted if they substantially duplicate the disclosures contained in our annual audited condensed consolidated financial statements. Additionally, the year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and notes thereto for the year ended December 31, 2021.

In the opinion of management, all adjustments considered necessary for the fair presentation of our financial position and results of operations in accordance with U.S. GAAP (consisting of normal recurring adjustments) have been included in the accompanying unaudited condensed consolidated financial statements.

Certain comparative amounts have been reclassified to conform with the current period presentation.

The condensed consolidated financial statements include the accounts of Snail Games USA Inc. and the following subsidiaries:

Subsidiary Name	Equity % Owned
Snail Innovation Institute	70%
Frostkeep Studios, Inc.	100%
Eminence Corp	100%
Wandering Wizard, LLC	100%
Donkey Crew Limited Liability Company	99%
Interactive Films, LLC	100%
Project AWK Productions, LLC	100%
BTBX.io, LLC	70%
Elephant Snail, LLC (through April 15, 2021)	51%

All intercompany accounts, transactions, and profits have been eliminated upon consolidation.

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 — PRESENTATION AND NATURE OF OPERATIONS (continued)

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and the accompanying notes. Such estimates include revenue recognition, provisions for doubtful accounts, deferred income tax assets and associated valuation allowances, deferred revenue, income taxes, valuation of intangibles, including those with related parties and impairment of intangible assets. These estimates generally involve complex issues and require management to make judgments, involve analysis of historical and future trends that can require extended periods of time to resolve, and are subject to change from period to period. In all cases, actual results could differ materially from estimates.

Segment Reporting

The Company has one operating and reportable segment. Our operations involve similar products and customers worldwide. Revenue earned is primarily derived from the sale of software titles, which are developed internally or licensed from related parties. Financial information about our segment and geographic regions is included in Note 3 — *Revenue from Contracts with Customers*.

COVID-19

Since the start of the coronavirus pandemic early in 2020, the Company has made sustained efforts to ensure the health and safety of the workforce while ensuring continuity of the business. In the workplace, the Company has designed and implemented protocols for social distancing, made provisions for the workforce to work remotely where possible, and established quarantine policies for those who present COVID-like symptoms or may have been in contact with those who have. Further, the Company keeps current with local, state, federal and international laws and restrictions that could affect the business and provide real-time information to the workforce. The Company has its own policies relating to health and is committed to compliance with COVID-19 policies.

As has been the case with many other employers, since the start of 2021, the Company has encouraged its workforce to receive vaccinations against COVID-19 through various means, including incentive programs. However, new variants, particularly the Delta and Omicron variants, have engendered a resurgence of the virus in many regions particularly among the unvaccinated. In-the-midst of changing conditions, the Company has nevertheless been able to manage its business with minimal impact during the three-and six-month periods ended June 30, 2022 and 2021.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company's revenue includes the publishing of software games delivered digitally and through physical discs (e.g., packaged goods). The Company's digital games may include additional downloadable content that are new feature releases to digital full-game downloads. Revenue also includes sales of mobile in-app purchases that require the Company's hosting support in order to utilize the game or related content. Such games include virtual goods that can be purchased by the end users, as desired. When control of the promised products and services is transferred to the customers, the Company recognizes revenue in the amount that reflects the consideration it expects to receive in exchange for these products and services. Revenue from delivery of products is recognized at a point in time when the end consumers download the games and the control of the license is transferred to them.

The Company recognizes revenue using the following five steps as provided by ASC Topic 606 *Revenue from Contracts with Customers*: 1) identify the contract(s) with the customer; 2) identify the performance

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

obligations in each contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when, or as, the entity satisfies a performance obligation. The Company's terms and conditions vary by customers and typically provide net 30 to 75 days terms or 45 days after each quarter ends.

Principal vs Agent Consideration

The Company offers certain software products via third-party digital storefronts, such as Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store, Apple's App Store, the Google Play Store, and retail distributor. For sales of our software products via third-party digital storefronts and retail distributor, we determine whether or not we are acting as the principal in the sale to the end user, which we consider in determining if revenue should be reported based on the gross transaction price to the end user or based on the transaction price net of fees retained by the third-party digital storefront. An entity is the principal if it controls a good or service before it is transferred to the customer. Key indicators that we use in evaluating these sales transactions include, but are not limited to, the following:

- The underlying contract terms and conditions between the various parties to the transaction;
- Which party is primarily responsible for fulfilling the promise to provide the specified good or service; and
- Which party has discretion in establishing the price for the specified good or service.

Based on our evaluation of the above indicators, for sales arrangements via Microsoft's Xbox Live, Sony's PlayStation Network, Valve's Steam, Epic Games Store, and retail distributor, the digital platforms and distributors have discretion in establishing the price for the specified good or service and we have determined we are the agent in the sales transaction to the end user and therefore we report revenue on a net basis based on the consideration received from the digital storefront. For sales arrangements via Apple's App Store and the Google Play Store, we have discretion in establishing the price for the specified good or service and we have determined that we are the principal to the end user and thus report revenue on a gross basis and mobile platform fees charged by these digital storefronts are expensed as incurred and reported within cost of revenues.

Contract Balance

The Company records deferred revenue when cash payments are received or due in advance of its performance, even if amounts are refundable.

Deferred revenue is comprised of the transaction price allocable to the Company's performance obligation on technical support and the sale of virtual goods available for in-app purchases, and payments received from customers prior to launching the games on the platforms. The Company categorizes the virtual goods as either "consumable" or "durable." Consumable virtual goods represent goods that can be consumed by a specific player action; accordingly, the Company recognizes revenues from the sale of consumable virtual goods as the goods are consumed and the performance obligation is satisfied. Durable virtual goods represent goods that are accessible to the players over an extended period of time; accordingly, the Company recognize revenues from the sale of durable virtual goods ratably over the period of time the goods are available to the player and the performance obligation is satisfied, which is generally the estimated service period.

The Company also has a long-term title license agreement ("game pass") with Microsoft for a period of three years. The Company recognizes deferred revenue and amortizes this revenue according to the terms of the relevant agreement. The agreement was initially made between the parties in November 2018 and valid through December 31, 2021. The agreement was subsequently amended in June 2020 to extend the *ARK* 1 game pass perpetually effective January 1, 2022 and to put *ARK* 2 on game pass for three years upon

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

release. The Company recognized $2.5 million in revenue related to *ARK* 1 perpetual license for the six months ended June 30, 2022 and deferred $2.3 million related to *ARK* 2 that is included in the long-term portion of deferred revenue.

In November 2021, the Company entered an agreement with Sony Interactive Entertainment LLC ("Sony") to make *ARK* 1 available on the PS4 platform and PS Plus program for a period of 5 weeks in exchange for $3.5 million. Sony launched the 5-week program on March 1, 2022 and the Company recognized the full amount of revenue from this contract for the six months ended June 30, 2022, as the significant performance obligation of making the game available on the platform was met on the first day of the contract.

Estimated Service Period

For certain performance obligations satisfied over time, we have determined that the estimated service period is the time period in which an average user plays our software products ("user life") which most faithfully depicts the timing of satisfying our performance obligation. We consider a variety of data points when determining and subsequently reassessing the estimated service period for players of our software products. Primarily, we review the weighted average number of days between players' first and last days played online. When a new game is launched and no history of online player data is available, we consider other factors to determine the user life, such as the estimated service period of other games actively being sold with similar characteristics. We also consider known online trends, the service periods of our previously released software products, and, to the extent publicly available, the service periods of our competitors' software products that are similar in nature to ours.

We believe this provides a reasonable depiction of the use of games by our customers, as it is the best representation of the period during which our customers play our software products. Determining the estimated service period is subjective and requires significant management judgment and estimates. Future usage patterns may differ from historical usage patterns, and therefore the estimated service period may change in the future. The estimated service periods for virtual goods are generally approximately 30 to 100 days.

Shipping and Handling

The distributor, as the principal, is responsible for the shipping of the game discs to the retail stores and incurring the shipping costs. The Company is paid the net sales amount after deducting shipping costs and other related expenses by the distributor.

Cost of Revenues

Cost of revenues include software license royalty fees, merchant fees, server and database center costs, game localization costs, game licenses and amortization costs. Cost of revenues for the three- and six-month periods ended June 30, 2022 and 2021 were comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Software license royalties – related parties	$ 3,364,849	$ 6,493,045	$ 9,886,027	$12,092,835
License and amortization – related parties	6,350,980	7,816,287	12,701,959	15,836,756
License and amortization	100,224	300,448	250,448	150,224
Game localization	—	26,964	—	41,373
Merchant fees	596,021	970,085	1,253,557	2,030,410
Engine fees	502,686	1,051,310	1,216,679	1,900,620
Internet, server and data center	472,125	492,433	967,232	850,516
Total:	$11,386,885	$17,150,572	$26,275,902	$32,902,734

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

The Company expenses advertising costs as incurred. For the three months ended June 30, 2022 and 2021, advertising expense totaled $212,039 and $71,269, respectively. For the six months ended June 30, 2022 and 2021, advertising expenses totaled $370,710 and $117,060, respectively.

Research and Development

Research and development costs are expensed as incurred. Research and development costs include travel, payroll, and other general expenses specific to research and development activities. Research and development costs for the three months ended June 30, 2022 and 2021 were $179,050 and $239,796, respectively. Research and development costs for the six months ended June 30, 2022 and 2021 were $363,006 and $371,409, respectively.

Non-controlling Interests

Non-controlling interests on the condensed consolidated balance sheets, and condensed consolidated statements of income and comprehensive income include the equity allocated to non-controlling interest holders. As of June 30, 2022 and December 31, 2021, there were non-controlling interests with the following subsidiaries:

Subsidiary Name	Equity % Owned	Non-Controlling %
Snail Innovative Institute	70%	30%
BTBX.IO, LLC	70%	30%
Donkey Crew, LLC	99%	1%

Fair Value Measurements

The Company follows FASB ASC Topic 820, Fair Value Measurements. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value.

The three levels of inputs are as follows:

- **Level 1:** Quoted prices in active markets for identical assets or liabilities that the Company has an ability to access as of the measurement date.
- **Level 2:** Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Our financial instruments include cash and cash equivalents, restricted cash and cash equivalents, short-term financial instruments, short-term loans, accounts receivable, accounts payable and current liabilities. The carrying values of these financial instruments approximate their fair value due to their short maturities. The carrying amount of our debt approximates fair value because the interest rates on these instruments approximate the interest rate on debt with similar terms available to us for a similar duration. The Company re-measured the fair value of one of its intangible assets, *Atlas*, as of December 31, 2021, using level 3 inputs. Please refer to Note 11 — *Intangible Assets* for more details. The Company does not have any other assets or liabilities measured at fair value on a recurring or non-recurring basis at June 30, 2022 and December 31, 2021.

Concentration of Credit Risk and Significant Customers

The Company maintains cash balances at several major financial institutions. While the Company attempts to limit credit exposure with any single institution, balances often exceed insurable amounts. As of June 30, 2022 and December 31, 2021, the Company had deposits of $19,648,941 and $15,135,863, respectively, that were not insured by the Federal Deposit Insurance Corporation.

The Company extends credit to various digital resellers and partners. Collection of trade receivables may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. The Company performs ongoing credit evaluations of customers and maintains reserves for potential credit losses. At June 30, 2022 and December 31, 2021, the Company had three customers who accounted for approximately 78% and four customers who accounted for approximately 85% of consolidated gross receivables, respectively. Among the three customers as of June 30, 2022 and four customers as of December 31, 2021, each customer accounted for 30%, 29%, and 19% as of June 30, 2022, and 29%, 28%, 17%, and 12% as of December 31, 2021 of the consolidated gross receivables outstanding. During the three months ended June 30, 2022 and 2021, approximately 68% and 74%, respectively, of net revenue was derived from these customers. During the six months ended June 30, 2022 and 2021, approximately 76% and 72%, respectively, of net revenue was derived from these customers.

In January 2022, the Company received approximately $1,500,000 from Pound Sand, LLC in connection with the Company's sale of its membership interest in Pound Sand, LLC on December 3, 2020; this amount was included as a receivable in the other current assets as of December 31, 2021 in the accompanying condensed consolidated balance sheets.

Leases

The Company has several leases relating primarily to office facilities. The Company determines if an arrangement is or contains a lease at contract inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. The lease liability is measured as the present value of the unpaid lease payments, and the right-of-use asset value is derived from the calculation of the lease liability. Lease payments include fixed and in-substance fixed payments, variable payments based on an index or rate, reasonably certain purchase options, and termination penalties. Variable lease payments are recognized as lease expenses as incurred, and generally relate to variable payments made based on the level of services provided by the landlords of our leases. For leased assets with similar lease terms and asset types, we applied a portfolio approach in determining a single incremental borrowing rate for the leased assets. The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments because the Company does not

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

have the information necessary to determine the rate implicit in the lease. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company's lease term includes any option to extend the lease when it is reasonably certain to be exercised based on considering all relevant factors. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and we recognize lease expense for these leases on a straight-line basis over the lease term. Operating leases are included in operating lease right-of-use assets, net, current portion of operating lease liabilities, and operating lease liabilities, net of current portion on the consolidated balance sheets.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses*, which replaces the incurred loss impairment methodology in current US GAAP with a methodology that requires the reflection of expected credit losses and also requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. For most financial instruments, the standard requires the use of a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which generally results in the earlier recognition of credit losses on financial instruments. We are currently evaluating the potential impact of adopting this guidance on our condensed consolidated financial statements and expect to adopt ASC 2016-13 on January 1, 2023.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance*, to provide guidance on the disclosures of forgivable loan transactions with a government that are accounted for by applying a grant or contribution accounting model, by analogy. It seeks to provide increased transparency for financial statement users to better assess the nature of the transactions, the related accounting policies used to account for the transactions, the effect of the transaction on an entities financial statements and significant terms and conditions of the transactions. The Company adopted this standard beginning on January 1, 2022. The adoption of the standard affected the disclosures of the Paycheck Protection Program ("PPP") loan and related loan forgiveness in the Company's condensed consolidated financial statements. Please see Note 15 — *Revolving Loan, Short Term Note and Long-Term Debt*, and Note 19 — *Subsequent Events* for more information.

CARES Act

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property, the Company did not result in a material cash benefit as a result of these provision.

The CARES Act is a stimulus package that provides various forms of relief through, among other things, grants, loans and tax incentives to certain businesses and individuals. In particular, the CARES Act created an emergency lending facility known as the PPP, which is administered by the U.S. Small Business Administration ("SBA") and provides federally insured and, in some cases, forgivable loans to certain eligible businesses so that those businesses can continue to cover certain of their near-term operating expenses and retain employees. See Note 15 — Revolving Loan, Short Term Note, and Long-Term Debt for additional information.

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 — REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

Geography

We attribute net revenue to geographic regions based on customer location. Net revenue by geographic region for the three-and six-month periods ended June 30, 2022 and 2021 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
United States	$13,971,832	$27,637,830	$40,258,628	$51,256,128
International	1,491,690	3,565,136	3,259,485	7,583,051
Total revenue from contracts with customers:	$15,463,522	$31,202,966	$43,518,113	$58,839,179

Platform

Net revenue by platform for the three-and six-month periods ended June 30, 2022 and 2021 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Console	$ 5,415,772	$13,717,033	$23,407,351	$27,461,763
PC	6,943,036	13,738,971	13,627,472	22,736,876
Mobile	2,393,878	3,318,908	5,185,198	6,929,895
Other	710,836	428,054	1,298,092	1,710,645
Total revenue from contracts with customers:	$15,463,522	$31,202,966	$43,518,113	$58,839,179

Distribution channel

Our products are delivered through digital online services (digital download, online platforms, and cloud streaming), mobile, and retail distribution and other. Net revenue by distribution channel for the three- and six-month periods ended June 30, 2022 and 2021 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Digital	$12,358,808	$26,998,676	$37,034,823	$50,198,639
Mobile	2,393,878	3,318,908	5,185,198	6,929,895
Physical retail and other	710,836	885,382	1,298,092	1,710,645
Total revenue from contracts with customers:	$15,463,522	$31,202,966	$43,518,113	$58,839,179

Deferred Revenue

The Company records deferred revenue when payments are due or received in advance of the fulfillment of our associated performance obligations; reductions to deferred revenue balance were due primarily to the recognition of revenue upon fulfillment of our performance obligations, both of which were in the ordinary course of business. Activities in the Company's deferred revenue as of June 30, 2022 and December 31, 2021 were as follows:

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 — REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

	June 30, 2022	December 31, 2021
Deferred revenue, beginning balance in advance of revenue recognition billing	$20,280,934	$ 34,529,335
Revenue recognized	(6,929,600)	(26,478,997)
Revenue deferred	3,908,046	12,230,596
Deferred revenue, ending balance	17,259,380	20,280,934
Less: short term portion	8,121,311	11,005,517
Deferred revenue, long term	$ 9,138,069	$ 9,275,417

NOTE 4 — CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH AND CASH EQUIVALENTS

Cash equivalents are valued using quoted market prices or other readily available market information. The Company has $6,361,381 and $6,389,777 as of June 30, 2022 and December 31, 2021, respectively, as security for the debt with a financial institution (see Note 15 Revolving Loan, Short Term Note, and Long-Term Debt) and to secure standby letters of credit with landlords. The following table summarizes the components of the Company's cash and cash equivalents, and restricted cash and cash equivalents as of June 30, 2022 and December 31, 2021:

	2022	2021
Cash and cash equivalents	$14,697,338	$10,164,338
Restricted cash and cash equivalents	6,361,381	6,389,777
Cash and cash equivalents, and restricted cash and cash equivalents	$21,058,719	$16,554,115

NOTE 5 — ACCOUNTS RECEIVABLE — RELATED PARTY

Accounts receivable — related party represents receivables in the ordinary course of business attributable to certain mobile game revenues that, for administrative reasons, are collected by a related party and that the related party has not remitted back to the Company. The accounts receivable is offset by payables due to the related party for royalties, internet data center ("IDC") and marketing costs. Accounts receivable — related party is non-interest bearing and due on demand. The related party is 100% owned and controlled by the wife of the Founder and Chairman of the Company. As of June 30, 2022 and December 31, 2021, the outstanding balance of net accounts receivable from related party was as follows:

	2022	2021
Accounts receivable – related party	$13,519,409	$13,519,409
Less: Accounts payable – related party	(2,578,005)	(5,083,586)
Accounts receivable – related party, net	$10,941,404	$ 8,435,823

NOTE 6 — DUE FROM SHAREHOLDER

Other receivables from related party consisted of monies that the Company lent to the Company's Founder and Chairman, who is also the majority shareholder of Suzhou Snail. The loan bears 2.0% per annum interest. Both the loan receivable and the interest receivable are presented as contra equity in our condensed consolidated statements of equity for a total of $94,353,522 as of December 31, 2021. On April 26, 2022, the Company, with approval from its Board of Directors and in accordance with applicable laws and regulations, assigned the other receivables — related party (due from shareholder) of $94,934,400 outstanding including interest, to Suzhou Snail, which assumed the loan as creditor. Simultaneously, the Company

NOTE 6 — DUE FROM SHAREHOLDER (continued)

declared and paid Suzhou Snail an in-kind dividend with an aggregate amount equal to $94,934,400 on April 26, 2022; see Note 7 — *Dividend Distribution*. As of June 30, 2022 the other receivable is no longer reflected within the Company's condensed consolidated balance sheets.

NOTE 7 — DIVIDEND DISTRIBUTION

On April 26, 2022, the Company declared an in-kind dividend of $94,934,400 for the assignment of the due from shareholder and a cash dividend of $8,200,000 to pay the related withholding taxes; see Note 6 — Due from Shareholder.

NOTE 8 — PREPAID EXPENSES RELATED PARTIES

During the six-month period ended June 30, 2022 the Company prepaid $5,000,000 for exclusive license rights to *ARK 2* to a related party. Prepaid expenses — related parties consisted of the following as of June 30, 2022 and December 31, 2021:

	2022	2021
Prepaid royalties	$2,520,000	$3,145,000
Prepaid licenses	5,000,000	—
Prepaid expenses – related party, ending balance	7,520,000	3,145,000
Less: short-term portion	1,000,000	—
Total prepaid expenses – related party	$6,520,000	$3,145,000

NOTE 9 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

In January 2022, the Company received $1,500,000 from Pound Sand, LLC in connection with the Company's sale of its membership interest in Pound Sand, LLC on December 3, 2020; this amount was included as a receivable in the prepaid expenses and other current assets as of December 31, 2021 in the accompanying condensed consolidated balance sheets.

Prepaid expenses and other current assets consisted of the following as of June 30, 2022 and December 31, 2021:

	2022	2021
Prepaid income taxes	$ 9,046,472	$ 8,217,660
Other prepaids	1,130,926	861,332
Other current assets	298,265	1,938,015
Total prepaid expenses and other current assets	$10,475,663	$11,017,007

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 10 — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following as of June 30, 2022 and December 31, 2021:

	2022	2021
Building	$ 1,874,049	$ 1,874,049
Land	2,700,000	2,700,000
Building improvements	1,010,218	1,010,218
Leasehold improvements	1,537,775	1,537,775
Autos and trucks	267,093	267,093
Computer and equipment	1,821,819	1,830,949
Furniture and fixtures	411,801	411,801
	9,622,755	9,631,885
Accumulated depreciation	(4,248,466)	(3,953,184)
Property, plant and equipment, net	$ 5,374,289	$ 5,678,701

Depreciation and amortization expense was $138,791 and $213,178 for the three months ended June 30, 2022 and 2021, respectively. Depreciation and amortization expense was $307,108 and $429,763 for the six months ended June 30, 2022 and 2021, respectively. During the six-month period ended June 30, 2022, the Company disposed of $11,615 in computer equipment with an accumulated depreciation of $9,182. The total loss resulting from the disposal of the assets amounted to $2,433. No such disposals were made during the three-month period ended June 30, 2022 or the three- and six-month periods ended June 30, 2021.

NOTE 11 — INTANGIBLE ASSETS

Intangible assets on trademark and technology consist of game license software underlying intellectual property rights, game trademark name, logo, and other branding items. The Company amortizes the intangible assets over its useful life.

During 2021, the Company impaired the *Atlas* license right due to delay in launching the game in several platforms. The Company recognized $16,325,000 as impairment loss during the year ended December 31, 2021 and the impairment was calculated based on revision to the discounted cash flow valuation using a 10% discount rate, which reflected the delay and decreased future cash flow. The following tables set all the intangible assets presented on the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021:

	June 30, 2022				
	Gross Carrying Amount	Accumulated Amortization	Impairment Loss	Net Book Value	Weighted Average Useful Life
License rights from related parties	$136,665,000	$(131,578,983)	$ —	$5,086,017	3 – 5 years
License rights	$ 3,000,000	$ (3,000,000)	$ —	$ —	5 years
Intangible assets – other:					
Software	$ 51,784	$ (51,784)	$ —	$ —	3 years
Trademark	10,745	(5,807)	—	4,938	15 years
In-progress patent	270,886	—	—	270,886	
Total:	$ 333,415	$ (57,591)	$ —	$ 275,824	

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 11 — INTANGIBLE ASSETS (continued)

	December 31, 2021				
	Gross Carrying Amount	Accumulated Amortization	Impairment Loss	Net Book Value	Weighted Average Useful Life
License rights from related parties	$152,990,000	$(127,877,024)	$(16,325,000)	$8,787,976	3 – 5 years
License rights	$ 3,000,000	$ (2,750,000)	$ —	$ 250,000	5 years
Intangible assets – other:					
Software	$ 51,784	$ (50,908)	$ —	$ 876	3 years
Trademark	10,745	(5,359)	—	5,386	15 years
In-progress patent	270,886	—	—	270,886	
Total:	$ 333,415	$ (56,267)	$ —	$ 277,148	

Amortization expense was $1,951,204 and $3,617,403 for the three months ended June 30, 2022 and 2021, respectively. Amortization expense was $3,952,407 and $6,991,791 for the six months ended June 30, 2022 and 2021, respectively. These amounts are included in costs of revenues in the accompanying condensed consolidated statements of income and comprehensive income (loss). Future amortization expense of intangible assets is as follows:

Years ending December 31,	Amount
Remainder of 2022	$3,702,408
2023	1,384,927
2024	804
2025	803
2026	743
Thereafter	272,156
	$5,361,841

NOTE 12 — ACCOUNTS PAYABLE TO RELATED PARTY

Accounts payable to related party represent payables in the ordinary course of business primarily for purchases of game distribution licenses and also the royalties due to the Suzhou Snail. As of June 30, 2022 and December 31, 2021, the Company had $23,511,036 and $23,733,572, respectively, as accounts payable to Suzhou Snail. For the three months ended June 30, 2022 and 2021, the Company incurred $98,573 and $196,975, respectively as license costs to Suzhou Snail. During the six months ended June 30, 2022 and 2021, the Company incurred $222,033 and $392,023, respectively as license costs to the Suzhou Snail.

NOTE 13 — LOAN AND INTEREST RECEIVABLE — RELATED PARTIES

In February 2021, the Company lent $200,000 to a wholly owned subsidiary of Suzhou Snail, the loan bears 2.0% per annum interest, interest and principal are due in February 2022. In February 2022, Suzhou Snail signed an agreement with this subsidiary and assumed loan and related interest for a total of $203,890. Subsequently, $103,890 was offset against the loan and interest payable owed to Suzhou Snail on a separate note. Please refer to Note 14 — Loan Payable and Interest Payable — Related Parties. The total amount of loan and interest receivable — related parties was $100,745 and $203,408, as of June 30, 2022 and December 31, 2021, respectively.

NOTE 14 — LOAN PAYABLE AND INTEREST PAYABLE — RELATED PARTIES

The Company had a loan amount due to related parties of $400,000 bearing 2.00% per annum interest. $300,000 of the loan is from a wholly owned subsidiary of Suzhou Snail and due in June 2022, and $100,000

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 14 — LOAN PAYABLE AND INTEREST PAYABLE — RELATED PARTIES (continued)

is from Suzhou Snail and due in December 2023. The $100,000 loan along with $3,890 interest payable to the Suzhou Snail was offset by the loan receivable Suzhou assumed in February 2022. Please refer to Note 13 — *Loan and Interest Receivable — Related Parties*. As of June 30, 2022 and December 31, 2021, the total loan payable — related parties amounted to $300,000 and $400,000, respectively, and total unpaid interest amounted to $527,770 and $528,439, as of June 30, 2022 and December 31, 2021, respectively. In July 2022, the Company paid off the outstanding loan principal of $300,000.

NOTE 15 — REVOLVING LOAN, SHORT TERM NOTE AND LONG-TERM DEBT

	June 30, 2022	December 31, 2021
PPP Promissory Note – In April 2020, the Company applied for and received $773,810 in SBA loans through the paycheck protection program. During the period ended March 31, 2022 the Company made $90,198 in principal payments and during the year ended December 31, 2021 the SBA forgave $392,200 of the PPP loan. In April 2022 the SBA forgave the remaining balance of $126,131 and issued a refund for $48,305 of principal payments made during the three months ended March 31, 2022.	$ —	$ 216,329
2021 Revolving Loan – On June 17, 2021, the Company amended its revolving loan agreement ("revolver") and increased the maximum balance to $9,000,000. The amended revolver matures on December 31, 2023 and has an annual interest rate equal to the prime rate less 0.25%. The revolver is secured by the certificate of deposit accounts held with the financial institution, and reported as restrictricted cash, in the amount of $5,251,866 and $5,240,752 as of June 30, 2022 and December 31, 2021, respectively. Debt covenants of this loan require the Company to maintain a minimum debt service coverage ratio of at least 1.5 to 1.	9,000,000	9,000,000
2021 Promissory Note – On June 17, 2021, the Company amended its loan agreement to reduce the principal amount with financial institution for 10 years, annual interest rate of 3.5% for the first 5 years, and then floating at Wall Street Journal rate from years 6 to 10, the loan is secured by the Company's building and matures on June 30, 2031. The note is subject to a prepayment penalty.	2,924,022	2,962,782
2022 Short Term Note – On January 26, 2022, the Company amended its revolving loan and long-term debt agreements to obtain an additional note with a principal balance of $10,000,000 which matures on January 26, 2023. Interest shall be equal to the higher of 3.75% or the Wall Street Journal Prime Rate plus 0.50%. The loan is secured by the Company's assets. In the event of a default, all outstanding amounts under the note will bear interest at a default rate equal to 5% over the note rate. Debt covenants of this loan require the Company to maintain a minimum debt service coverage ratio of at least 1.5 to 1 and will be measured quarterly.	7,916,667	—
Total	19,840,689	12,179,111
Less: current portion	16,995,386	9,293,677
Total long-term debt	$ 2,845,303	$ 2,885,434

NOTE 15 — REVOLVING LOAN, SHORT TERM NOTE AND LONG-TERM DEBT (continued)

Total interest expense for the above debts and revolver loan amounted to $179,602 and $85,458 for the three months ended, June 30, 2022 and 2021, respectively. Total interest expense for above debts and revolver loan amounted to $339,691 and $176,105 for the six months ended June 30, 2022 and 2021, respectively. Amortization of loan origination expenses of $6,591 and $6,759 are included as part of interest expense for the three months ended June 30, 2022 and 2021, respectively. Amortization of loan origination expenses of $12,557 and $13,518 are included as part of interest expense for the six months ended June 30, 2022 and 2021, respectively. The Company is in compliance with its debt covenants as of June 30, 2022 and December 31, 2021.

The following table provides future minimum payments of its long-term debt as of December 31:

Years ending December 31,	Amount
Remainder of 2022	$ 2,538,588
2023	14,496,804
2024	82,748
2025	86,013
2026	89,115
Thereafter	2,547,421
	$19,840,689

NOTE 16 — INCOME TAXES

The Company and its subsidiaries currently file tax returns in the United States (federal and state) and Poland. The statute of limitations for its consolidated federal income tax returns are open for tax years ended December 31, 2018 and after. The statute of limitations for its consolidated California income tax returns are open for tax years ended December 31, 2017 and after. All tax periods for its Polish subsidiary are currently subject to examination since its inception in 2018.

The Company recognized income tax benefit of $327,347 and expense of $1,682,130 for the three months ended June 30, 2022 and 2021, respectively. The income tax expense of $1,202,303 and $3,322,707 for the six months ended June 30, 2022 and 2021, respectively, reflects an effective tax rate of 20%, for both periods. At June 30, 2022, the Company's effective tax rate of 20% was lower than the federal statutory rate of 21% due to special deductions related to fiscal year 2022 estimated foreign derived intangible income deduction.

NOTE 17 — OPERATING LEASE RIGHT-OF-USE ASSETS

The Company's right-of-use assets represent arrangements related primarily to office facilities used in the ordinary business operations of the Company and its subsidiaries. In April, 2018, a commercial bank issued an irrevocable standby letter of credit on behalf of the Company to the landlord for $1,075,000 to lease office space. The standby letter of credit was valid for a one-year term and was amended in January 2021 to extend to January 31, 2026. As of June 30, 2022 and December 31, 2021 the Company's net operating lease right-of-use assets amounted to $4,166,498 and $5,100,912, respectively. During the six months ended June 30, 2022 the Company terminated one of its lease contracts and recognized a gain on the lease termination of $122,533. There was no such termination during the year ended December 31, 2021. The effect of the termination on the related lease asset and liability were as follows:

	Right of Use Asset	Accumulated Amortization	Lease Liability		Gain on Termination
			Current	Long Term	
Lease Termination	$(1,275,914)	$890,437	$433,980	$74,030	$122,533

NOTE 18 — COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to claims and contingencies related to lawsuits and other matters arising out to the normal course of business. In addition, we may receive notifications alleging infringement of patent or other intellectual property rights. The Company has elected to expense legal costs associated with legal contingencies as incurred. As of June 30, 2022 and December 31, 2021, the Company has an estimated accrual of $45,713 and $1,330,000, respectively, as a result of a pending litigation settlement. Such amounts are included in accrued expenses on the accompanying condensed consolidated balance sheets. The Company paid the balance of $1,330,000 during the period ended June 30, 2022 and expects to pay the balance of $45,713 during the period ended September 30, 2022.

On December 1, 2021, the Company and Studio Wildcard sent a notice of claimed infringement (the "DCMA Takedown Notice") to Valve Corporation, which operates the Steam platform, pursuant to the Digital Millennium Copyright Act ("DCMA"). The DCMA Takedown Notice concerns a videogame titled Myth of Empires, which was developed by Suzhou Angela Online Game Technology Co., Ltd. ("Angela Game") and published by Imperium Interactive Entertainment Limited ("Imperium"). The DCMA Takedown Notice alleges that Angela Game and Imperium misappropriated the copyrighted source code of *ARK: Survival Evolved* and used it to develop the game Myth of Empires. The DCMA Takedown Notice requested that Steam cease distributing Myth of Empires and remove the game from the Steam platform. Steam complied with the DCMA Takedown Notice and removed Myth of Empires from its platform. The DCMA Takedown Notice was also sent to Tencent Cloud LLC ("Tencent"), which hosts the United States servers for users who downloaded the game before it was removed from Steam, but Tencent has not complied with the DCMA Takedown Notice.

On December 9, 2021, Angela Game and Imperium filed a complaint against the Company and Studio Wildcard in the United States District Court for the Central District of California in response to the DCMA Takedown Notice. The lawsuit seeks a declaratory judgment on non-liability for copyright infringement and non-liability for trade secret misappropriation, as well as unspecified damages for alleged misrepresentations in the DCMA Takedown Notice. Angela Game and Imperium also filed an application for a temporary restraining order asking the court to order us and Studio Wildcard to rescind the DCMA Takedown Notice so that Steam could once again reinstate *Myth of Empires* for download. On December 20, 2021, the Company and Studio Wildcard filed an answer to the complaint, which included counterclaims against Angela Game and Imperium and a third-party complaint against Tencent seeking unspecified damages resulting from the alleged copyright infringement and misappropriation of trade secrets in connection with the *ARK: Survival Evolved* source code. On December 23, 2021 the court denied the application for a temporary restraining order and issued an order to show cause as to why a preliminary injunction should not be issued. On January 31, 2022, a hearing was held on the order to show cause, and the court issued an order denying the preliminary injunction.

On February 3, 2022 Angela Game and Imperium appealed the order to the Ninth Circuit Court of Appeal ("Ninth Circuit"), claiming that the district court judge abused her discretion in denying the injunction. The parties have filed the required briefs. The Ninth Circuit will hear arguments in November 2022.

Meanwhile, the district court has appointed a neutral expert to compare the parties' computer code and issue a report about the extent of similarities. The parties have also retained their own experts to compare the code. The district court has set no discovery deadlines or a trial date.

At this time, we are unable to quantify the magnitude of the potential loss should the plaintiffs' lawsuit succeed. The Company has not recorded any accrual as the legal costs are being borne by Studio Wildcard.

NOTE 19 — SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after June 30, 2022 through September 16, 2022, the date the condensed consolidated financial statements were available to be issued.

Snail Games USA Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 19 — SUBSEQUENT EVENTS (continued)

During this period, the Company did not have any material recognizable or nonrecognizable subsequent events required to be disclosed as of and for the six months ended June 30, 2022, other than the following:

- In July 2022 the Company repaid $300,000 in outstanding principal on a loan from a related party. See Note 14 — *Loan Payable and Interest Payable — Related Parties* for more information.
- On July 25, 2022 the Company's board of directors authorized the issuance of a Letter of Intent ("LOI") to acquire a business owned by a related party. In accordance with the LOI, the Company made a good faith deposit of $1,000,000 on July 28, 2022 that would be credited against the purchase price. In the event the business combination was not completed, any good faith deposits would be applied to any obligations owed to the related party. In August 2022, the LOI was rescinded and the $1,000,000 has been reclassed as a prepayment of license costs due in September 2022.

Through and including , 2022 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Shares

Snail, Inc.

Class A Common Stock

PROSPECTUS

, 2022

PART II

Information Not Required in the Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table indicates the expenses to be incurred in connection with the offering described in this registration statement, other than underwriting discounts and commissions. All amounts are estimated except the Securities and Exchange Commission registration fee, the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee and the Nasdaq listing fee.

	Amount to be Paid
Securities and Exchange Commission registration fee	$ *
FINRA filing fee	*
Initial Nasdaq listing fee	*
Accountants' fees and expenses	*
Legal fees and expenses	*
Blue Sky fees and expenses	*
Transfer Agent's fees and expenses	*
Printing and engraving expenses	*
Miscellaneous	*
Total expenses	$ *

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

We will be governed by the Delaware General Corporation Law ("DGCL"). Section 145 of the DGCL provides that a corporation may indemnify any person, including an officer or director, who was or is, or is threatened to be made, a party to any threatened, pending or completed legal action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was or is an officer, director, employee or agent of such corporation or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such officer, director, employee or agent acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the corporation's best interest and, for criminal proceedings, had no reasonable cause to believe that such person's conduct was unlawful. A Delaware corporation may indemnify any person, including an officer or director, who was or is, or is threatened to be made, a party to any threatened, pending or contemplated action or suit by or in the right of such corporation, under the same conditions, except that such indemnification is limited to expenses (including attorneys' fees) actually and reasonably incurred by such person, and except that no indemnification is permitted without judicial approval if such person is adjudged to be liable to such corporation. Where an officer or director of a corporation is successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to above, or any claim, issue or matter therein, the corporation must indemnify that person against the expenses (including attorneys' fees) which such officer or director actually and reasonably incurred in connection therewith.

Our certificate of incorporation will authorize the indemnification of its officers and directors, consistent with Section 145 of the DGCL.

Reference is made to Section 102(b)(7) of the DGCL, which enables a corporation in its original certificate of incorporation or an amendment thereto to eliminate or limit the personal liability of a director for violations of the director's fiduciary duty, except (i) for any breach of the director's duty of loyalty to

the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL, which provides for liability of directors for unlawful payments of dividends of unlawful stock purchase or redemptions or (iv) for any transaction from which a director derived an improper personal benefit.

We intend to enter into indemnification agreements with each of our directors and officers. These indemnification agreements may, in some cases, be broader than the specific indemnification provisions contained under Delaware law. These indemnification agreements may require us, among other things, to indemnify our directors and officers for some expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or officer in any action or proceeding arising out of his or her service as one of our directors or officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. In addition, as permitted by Delaware law, our certificate of incorporation will include provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director.

We intend to arrange general liability insurance policy that covers certain liabilities of directors and officers of our corporation arising out of claims based on acts or omissions in their capacities as directors or officers.

In any underwriting agreement we enter into in connection with the sale of Class A common stock being registered hereby, which such agreement will be filed as Exhibit 1.1 to this registration statement, the underwriters will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us within the meaning of the Securities Act against certain liabilities.

Item 15. Recent Sales of Unregistered Securities.

None.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

The following documents are filed as exhibits to this registration statement.

1.1*	Form of Underwriting Agreement
3.1	Form of Amended and Restated Certificate of Incorporation, to be effective upon the completion of this offering
3.2	Form of Amended and Restated Bylaws, to be effective upon the completion of this offering
4.1	Form of Certificate of Class A Common Stock
4.2*	Form of Underwriters' Warrants
5.1*	Opinion of Davis Polk & Wardwell LLP
10.1	Form of Indemnification Agreement between Snail, Inc. and its directors and officers
10.2	Second Amended and Restated Revolving Loan and Security Agreement, dated as of January 26, 2022, by and between Snail Games USA Inc. and Cathay Bank
10.3	Promissory Note, dated January 26, 2022, by and between Snail Games USA Inc. and Cathay Bank
10.4	Loan Agreement, dated as of June 17, 2021, by and between Snail Games USA Inc. and Cathay Bank
10.5*	Exclusive Software License Agreement, effective as of April 27, 2022, by and between Snail Games USA Inc. and SDE Inc.
10.6^	Offer Letter, dated as of August 31, 2020, between Jim S. Tsai and Snail Games USA Inc.
10.7^	Amendment, effective as of November 1, 2021, to Offer Letter between Jim S. Tsai and Snail Games USA Inc.

10.8^	Offer Letter, dated as of August 28, 2020, between Heidy Chow and Snail Games USA Inc.
10.9^	Employment Agreement, dated as of December 10, 2012, between Peter Kang and Snail Games USA Inc.
10.10^	Amendment, effective as of December 1, 2021, to Employment Agreement between Peter Kang and Snail Games USA Inc.
10.11*^	2022 Omnibus Incentive Plan
21.1*	List of subsidiaries
23.1	Consent of BDO USA, LLP
23.2*	Consent of Davis Polk & Wardwell LLP (included in Exhibit 5.1)
24.1	Powers of attorney (included on signature page to the registration statement)
99.1	Consent of Neil Foster
99.2	Consent of Sandra Pundmann
107	Calculation of Filing Fee Tables

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* To be filed by amendment.

^ Indicates management contract or compensatory plan.

(b) Financial Statement Schedules. Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings.

The undersigned registrant hereby undertakes to provide to the underwriters, at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Culver City, California, on this 16th day of September, 2022.

Snail, Inc.

By: /s/ Jim S. Tsai

Name: Jim S. Tsai
Title: Chief Executive Officer

SIGNATURES AND POWER OF ATTORNEY

We, the undersigned officers and director of Snail Games USA Inc., hereby severally constitute and appoint Jim S. Tsai and Heidy Chow, and each of them singly (with full power to each of them to act alone), our true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them for him or her and in his or her name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement (or any other registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities held on the dates indicated.

Signature	Title	Date
/s/ Jim S. Tsai Jim S. Tsai	Chief Executive Officer (principal executive officer) and Director	September 16, 2022
/s/ Hai Shi Hai Shi	Founder and Chairman of the Board of Directors	September 16, 2022
/s/ Heidy Chow Heidy Chow	Chief Financial Officer (principal financial and accounting officer) and Director	September 16, 2022
/s/ Peter Kang Peter Kang	Chief Operating Officer and Director	September 16, 2022
/s/ Ying Zhou Ying Zhou	Director	September 16, 2022

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

SNAIL, INC.

The original name of the corporation is Snail, Inc. The original certificate of incorporation of the corporation was filed with the Secretary of State of the State of Delaware on January 11, 2022. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

The certificate of incorporation of the corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE 1.
NAME

The name of the corporation is Snail, Inc. (the "**Corporation**").

ARTICLE 2.
REGISTERED OFFICE AND AGENT

The address of its registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE 3.
PURPOSE AND POWERS

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended ("**Delaware Law**").

ARTICLE 4
CAPITAL STOCK

(A) Authorized Capital Stock. The Corporation shall be authorized to issue [•] shares of capital stock, of which (i) [•] shares shall be shares of Class A common stock, $0.0001 par value per share (the "**Class A Common Stock**"), (ii) [•] shares shall be shares of Class B common stock, $0.0001 par value per share (the "**Class B Common Stock**" and, together with the Class A Common Stock, the "**Common Stock**"), and (iii) [•] shares shall be shares of Preferred Stock, $0.0001 par value per share (the "**Preferred Stock**").

(B) Preferred Stock. The Board of Directors is hereby empowered, without any action or vote by the Corporation's stockholders (except as may otherwise be provided by the terms of any class or series of Preferred Stock then outstanding), to authorize by resolution or resolutions from time to time the issuance of one or more classes or series of Preferred Stock and to fix the designations, powers, preferences and relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, with respect to each such class or series of Preferred Stock and the number of shares constituting each such class or series, and to increase or decrease the number of shares of any such class or series to the extent permitted by Delaware Law.

(C) Rights of Class A Common Stock and Class B Common Stock

The relative powers, rights, qualifications, limitations and restrictions granted to or imposed on each share of Class A Common Stock and Class B Common Stock are as follows:

1. *Identical Rights.* Except as expressly provided herein, or required under applicable law, shares of the Class A Common Stock and Class B Common Stock shall have the same rights and privileges and rank equally, share ratably and be identical in all respects as to all matters. The number of authorized shares of Class A Common Stock or Class B Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of all outstanding voting securities of the Corporation entitled to vote thereon, irrespective of the provisions of Section 242(b)(2) of the Delaware Law.

2. *Voting Rights.*

    i. *General Voting Rights.* Except as otherwise expressly provided herein, or required by applicable law, the holders of Class A Common Stock and Class B Common Stock shall vote together as one class on all matters submitted to a vote of the stockholders.

ii. *Votes Per Share.* Except as otherwise expressly provided herein, or required by applicable law, on any matter that is submitted to a vote of the stockholders, each holder of Class A Common Stock shall be entitled to one (1) vote for each such share, and each holder of Class B Common Stock shall be entitled to ten (10) votes for each such share.

3. *Dividends and Distributions.* The holders of the Class A Common Stock and Class B Common Stock shall be entitled to receive an equal amount of dividends of distributions per share if, as and when declared from time to time by the Board of Directors, unless different treatment of shares of each such class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, each voting separately as a class, provided that, in the event of a dividend or distribution of Common Stock, shares of Class B Common Stock shall only be entitled to receive shares of Class B Common Stock and shares of Class A Common Stock shall only be entitled to receive shares of Class A Common Stock.

4. *Treatment in a Change of Control or any Merger Transaction.* In connection with any Change of Control Transaction, shares of Class A Common Stock and Class B Common Stock shall be treated equally, identically and ratably, on a per share basis, with respect to any consideration into which such shares are converted or any consideration paid or otherwise distributed to stockholders of the Corporation, unless different treatment of the shares of each such class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, each voting separately as a class. Any merger or consolidation of the Corporation with or into any other entity, which is not a Change of Control Transaction, shall require approval by the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, each voting separately as a class, unless (i) the shares of Class A Common Stock and Class B Common Stock remain outstanding and no other consideration is received in respect thereof or (ii) such shares are converted on a pro rata basis into shares of the surviving or parent entity in such transaction having identical rights to the shares of Class A Common Stock and Class B Common Stock, respectively.

5. *Subdivision or Combination.* If the Corporation in any manner subdivides or combines the outstanding shares of Class A Common Stock or Class B Common Stock, the outstanding shares of the other such class will concurrently therewith be proportionately subdivided or combined in a manner that maintains the same proportionate equity ownership between the holders of the outstanding Class A Common Stock and the holders of the outstanding Class B Common Stock on the record date for such subdivision or combination, unless different treatment of the shares of each such class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, each voting separately as a class.

6. *Liquidation, Dissolution or Distribution.* In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up of the Corporation, holders of Class A Common Stock and Class B Common Stock shall be treated equally, identically and ratably, on a per share basis, and be entitled to receive an equal amount per share of all the assets of the Corporation of whatever kind available for distribution to holders of Common Stock, after the rights of the holders of the Preferred Stock have been satisfied.

7. *Redemption.* Neither the Class A Common Stock nor the Class B Common Stock is redeemable.

(D) Definitions

For purposes of this Article 4:

1. "**Change of Control Transaction**" means (i) the sale, lease, exchange, or other disposition (other than liens and encumbrances created in the ordinary course of business, including liens or encumbrances to secure indebtedness for borrowed money that are approved by the Corporation's Board of Directors, so long as no foreclosure occurs in respect of any such lien or encumbrance) of all or substantially all of the Corporation's property and assets (which shall for such purpose include the property and assets of any direct or indirect subsidiary of the Corporation), provided that any sale, lease, exchange or other disposition of property or assets exclusively between or among the Corporation and any direct or indirect subsidiary or subsidiaries of the Corporation shall not be deemed a Change of Control Transaction; (ii) the merger, consolidation, business combination or other similar transaction of the Corporation with any other entity, other than a merger, consolidation, business combination or other similar transaction that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) more than fifty percent (50%) of the total voting power represented by the voting securities of the Corporation as outstanding immediately after such merger, consolidation, business combination or other similar transaction, and the stockholders of the Corporation immediately prior to the merger, consolidation, business combination, or other similar transaction owning voting securities of the Corporation, the surviving entity or its parent immediately following the merger, consolidation, business combination or other similar transaction in substantially the same proportions (vis a vis each other) as such stockholders owned the voting securities of the Corporation immediately prior to the transaction; and (iii) a recapitalization, liquidation, dissolution or other similar transaction involving the Corporation, other than a recapitalization, liquidation, dissolution, or other similar transaction that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity or its parent) more than fifty percent (50%) of the total voting power represented by the voting securities of the Corporation as outstanding immediately after such recapitalization, liquidation, dissolution or other similar transaction, and the stockholders of the Corporation immediately prior to the recapitalization, liquidation, dissolution or other similar transaction owning voting securities of the Corporation, the surviving entity or its parent immediately following the recapitalization, liquidation, dissolution or other similar transaction in substantially the same proportions (vis a vis each other) as such stockholders owned the voting securities of the Corporation immediately prior to the transaction.

ARTICLE 5
CONVERSION OF CLASS B COMMON STOCK

(A) Voluntary Conversion of Class B Common Stock. Each one (1) share of Class B Common Stock shall be convertible into one (1) fully paid and nonassessable share of Class A Common Stock at the option of the holder thereof at any time upon written notice to the transfer agent of the Corporation.

(B) Automatic Conversion of Class B Common Stock. Each share of Class B Common Stock shall automatically, without any further action by the Corporation or the holder thereof, be converted into one (1) fully paid and nonassessable share of Class A Common Stock upon the occurrence of (i) a Transfer other than a Permitted Transfer, of such share of Class B Common Stock, or (ii) the affirmative vote of the holders of Class B Common Stock representing not less than a majority of the voting power of the outstanding shares of Class B Common Stock, voting separately as a single class.

(C) Conversion Upon Death or Disability. Each share of Class B Common Stock held by record or beneficially owned by a natural person shall automatically, without any further action, convert into one (1) fully paid and nonassessable share of Class A Common Stock upon the death or Disability of such holder natural person.

(D) Final Conversion of Class B Common Stock. Each share of Class B Common Stock shall automatically, without any further action by the Corporation or the holder thereof, convert into one (1) fully paid and nonassessable share of Class A Common Stock on the date on which the outstanding shares of Class B Common Stock represent less than five percent (5%) of the total voting power of all outstanding voting securities of the Corporation entitled to vote generally in the election of directors, taken together as a single class.

(E) Policies and Procedures. The Corporation may, from time to time, establish such policies and procedures, not in violation of applicable law or this Certificate of Incorporation or the bylaws of the Corporation (the "**Bylaws**"), relating to the conversion of shares of the Class B Common Stock into shares of Class A Common Stock as it may deem necessary or advisable. If the Corporation has reason to believe that a Transfer that is not a Permitted Transfer has occurred, the Corporation may request that the purported transferor furnish affidavits or other evidence to the Corporation as it reasonably deems necessary to determine whether a Transfer that is not a Permitted Transfer has occurred, and if such transferor does not within ten (10) days after the date of such request furnish sufficient (as determined by the Board of Directors, which determination shall be conclusive and binding) evidence to the Corporation (in the manner provided in the request) to enable the Corporation to determine that no such Transfer has occurred, any such shares of Class B Common Stock, to the extent not previously converted, shall be automatically converted into shares of Class A Common Stock and such conversion shall thereupon be registered on the books and records of the Corporation.

(F) Definitions. For purposes of this Article 5:

(1) "**Disability**" means permanent and total disability such that the natural person holder of Class B Common Stock is unable to engage in any substantial gainful activity by reason of any medically determinable mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months as determined by a licensed medical practitioner. In the event of a dispute whether the natural-person holder of Class B Common Stock has suffered a Disability, no Disability of the natural person holder of Class B Common Stock shall be deemed to have occurred unless and until an affirmative ruling regarding such Disability has been made by a court of competent jurisdiction, and such ruling has become final and nonappealable.

(2) "**Transfer**" of a share of Class B Common Stock shall mean any sale, assignment, transfer, conveyance, hypothecation or other transfer or disposition of such share or any legal or beneficial interest in such share, whether or not for value and whether voluntary or involuntary or by operation of law, including, without limitation, a transfer of a share of Class B Common Stock to a broker or other nominee (regardless of whether there is a corresponding change in beneficial ownership), or the transfer of, or entering into a binding agreement with respect to, Voting Control over such share by proxy or otherwise, *provided*, *however*, that the following shall not be considered a "Transfer":

(a) the grant of a proxy to officers or directors of the Corporation at the request of the Board of Directors of the Corporation in connection with actions to be taken at an annual or special meeting of stockholders;

(b) the pledge of shares of Class B Common Stock by a stockholder that creates a mere security interest in such shares pursuant to a bona fide loan or indebtedness transaction for so long as such stockholder continues to exercise Voting Control over such pledged shares; *provided*, *however*, that a foreclosure on such shares or other similar action by the pledgee shall constitute a Transfer unless such foreclosure or similar action qualifies as a Permitted Transfer;

(c) entering into a voting trust, agreement or arrangement (with or without granting a proxy) solely with stockholders who are holders of Class B Common Stock that (A) is disclosed either in a Schedule 13D filed with the Securities and Exchange Commission or in writing to the Secretary of the Corporation, (B) either has a term not exceeding one (1) year or is terminable by the holder of the shares subject thereto at any time and (C) does not involve any payment of cash, securities, property or other consideration to the holder of the shares subject thereto other than the mutual promise to vote shares in a designated manner;

(d) the issuance by the Corporation of any shares of Class B Common Stock pursuant to the exercise of options, warrants, securities or rights that are exercisable or exchangeable for, or convertible into, Class B Common Stock; or

(e) the fact that the spouse of any holder of Class B Common Stock possesses or obtains an interest in such holder's shares of Class B Common Stock arising solely by reason of the application of the community property laws of any jurisdiction, so long as no other event or circumstance shall exist or have occurred that constitutes a "Transfer" of such shares of Class B Common Stock; *provided* that any transfer of shares by any holder of Class B Common Stock to such holder's spouse for any reason, including a transfer in connection with a divorce proceeding, domestic relations order or similar legal requirement, shall constitute a "Transfer" of such shares of Class B Common Stock.

(3) "**Permitted Transfer**" means a Transfer by a holder of Class B Common Stock to any of the persons or entities listed in clauses (a) through (e) below (each, a "**Permitted Transferee**") and from any such Permitted Transferee back to such holder of Class B Common Stock and/or any other Permitted Transferee established by or for such holder of Class B Common Stock:

(a) any Qualified Charity, foundation or similar entity established by a holder of Class B Common Stock so long as the holder of Class B Common Stock has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such entity; *provided* such Transfer does not involve any payment of cash, securities, property or other consideration (other than an interest in such entity) to the holder of Class B Common Stock; *provided*, *further*, that in the event such holder of Class B Common Stock no longer has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such entity, each share of Class B Common Stock then held by such entity shall automatically convert into one (1) fully paid and nonassessable share of Class A Common Stock;

(b) a trust for the benefit of such holder of Class B Common Stock or persons other than the holder of Class B Common Stock so long as the holder of Class B Common Stock has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such trust; *provided* such Transfer does not involve any payment of cash, securities, property or other consideration (other than an interest in such trust) to the holder of Class B Common Stock; *provided*, *further*, that in the event such holder of Class B Common Stock no longer has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such trust, each share of Class B Common Stock then held by such trust shall automatically convert into one (1) fully paid and nonassessable share of Class A Common Stock;

(c) a trust under the terms of which such holder of Class B Common Stock has retained a "qualified interest" within the meaning of §2702(b)(1) of the Internal Revenue Code and/or a reversionary interest so long as the holder of Class B Common Stock has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such trust; *provided*, that in the event such holder of Class B Common Stock no longer has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such trust, each share of Class B Common Stock then held by such trust shall automatically convert into one (1) fully paid and nonassessable share of Class A Common Stock;

(d) an Individual Retirement Account, as defined in Section 408(a) of the Internal Revenue Code, or a pension, profit sharing, stock bonus or other type of plan or trust of which such holder of Class B Common Stock is a participant or beneficiary and which satisfies the requirements for qualification under Section 401 of the Internal Revenue Code so long as the holder of Class B Common Stock has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held in such account, plan or trust; *provided*, that in the event such holder of Class B Common Stock no longer has sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such account, plan or trust, each share of Class B Common Stock then held by such account, plan or trust shall automatically convert into one (1) fully paid and nonassessable share of Class A Common Stock; or

(e) a corporation, partnership or limited liability company in which such holder of Class B Common Stock directly, or indirectly through one or more Permitted Transferees, owns shares, partnership interests or membership interests, as applicable, with sufficient Voting Control in the corporation, partnership or limited liability company, as applicable, or otherwise has legally enforceable rights, such that the holder of Class B Common Stock retains sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such corporation, partnership or limited liability company; *provided* that in the event the holder of Class B Common Stock no longer owns sufficient shares, partnership interests or membership interests, as applicable, or no longer has sufficient legally enforceable rights to ensure the holder of Class B Common Stock retains sole dispositive power and exclusive Voting Control with respect to the shares of Class B Common Stock held by such corporation, partnership or limited liability company, as applicable, each share of Class B Common Stock then held by such corporation, partnership or limited liability company, as applicable, shall automatically convert into one (1) fully paid and nonassessable share of Class A Common Stock.

(4) "**Qualified Charity**" means a domestic U.S. charitable organization, contributions to which are deductible for federal income, estate, gift and generation skipping transfer tax purposes.

(5) "**Voting Control**" means with respect to a share of Class B Common Stock the exclusive power (whether directly or indirectly) to vote or direct the voting of such share of Class B Common Stock by proxy, voting agreement, or otherwise.

G. **Reservation of Stock**. The Corporation will at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of effecting the conversion of the shares of Class B Common Stock, such number of shares of Class A Common Stock as will from time to time be sufficient to effect the conversion of all outstanding shares of Class B Common Stock into shares of Class A Common Stock.

H. **No Further Issuances**. The Corporation shall not at any time after the initial issuance of Class B Common Stock to the Founder issue any additional shares of Class B Common Stock, unless such issuance is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class B Common Stock, voting separately as a single class. After the Final Conversion of Class B Common Stock in Article 5(D), the Corporation shall not issue any additional shares of Class B Common Stock.

ARTICLE 6.
BYLAWS

The Board of Directors shall have the power to adopt, amend or repeal the Bylaws.

The stockholders may adopt, amend or repeal the Bylaws only with the affirmative vote of the holders of not less than 66 2/3% of the voting power of all outstanding voting securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

ARTICLE 7.
BOARD OF DIRECTORS

(A) Power of the Board of Directors. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors.

(B) **Number of Directors.** Subject to the terms of any series of Preferred Stock entitled to separately elect directors, the Board of Directors shall consist of not less than five nor more than nine directors, with the exact number of directors to be determined from time to time solely by resolution adopted by the affirmative vote of a majority of the entire Board of Directors.

(C) Election of Directors.

(1) Until the first date on which the Founder no longer beneficially owns more than 50% of the total voting power of the outstanding voting securities of the Corporation or the Corporation no longer qualifies as a "controlled company" under Nasdaq Listing Rule 5615(c)(1) as in effect on [•], 2022[1] (the "**Effective Date**"), all of the directors will be elected annually at the annual meeting of stockholders.

[1] To be the date of the IPO.

(2) From and after the Effective Date, except as otherwise provided in the terms of any series of Preferred Stock entitled to separately elect directors, the directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. Each director shall serve for a term ending on the date of the third annual meeting of stockholders next following the annual meeting at which such director was elected; provided that directors initially designated as Class I directors shall serve for a term ending on the date of the first annual meeting following the Effective Date, directors initially designated as Class II directors shall serve for a term ending on the second annual meeting following the Effective Date, and directors initially designated as Class III directors shall serve for a term ending on the date of the third annual meeting following the Effective Date. Immediately following the Effective Date, the Board of Directors is authorized to designate the members of the Board then in office as Class I directors, Class II directors or Class III directors. In making such designation, the Board of Directors shall equalize, as nearly as practicable, the number of directors in each class. In the event of any change in the number of directors, the Board of Directors shall apportion any newly created directorships among, or reduce the number of directorships in, such class or classes as shall equalize, as nearly as possible, the number of directors in each class. In no event will a decrease in the number of directors shorten the term of any incumbent director.

(2) Each director shall hold office until such director's successor shall have been duly elected and qualified or until such director's earlier death, resignation or removal and, in the case of a classified board, for a term that shall coincide with the term of the class to which such director shall have been elected.

(3) There shall be no cumulative voting in the election of directors. Election of directors need not be by written ballot unless the Bylaws so provide.

(D) Vacancies. Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors shall, except as otherwise required by law, be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director, and each director so elected shall hold office for a term that shall coincide with the term of the Class to which such director shall have been elected.

(E) Removal. Until the Effective Date, any director may be removed from office, with or without cause, by the affirmative vote of the holders of not less than a majority of voting securities then entitled to vote generally in the election of directors, voting together as a single class.

From and after the Effective Date, no director may be removed from office by the stockholders except for cause with the affirmative vote of the holders of not less than a majority of the total voting power of all outstanding voting securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

Notwithstanding the foregoing, whenever the holder of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of the resolution or resolutions adopted by the Board of Directors pursuant to Article 4 applicable thereto, and such directors so elected shall not be subject to the provisions of this Article 7 unless otherwise provided therein.

(F) Preferred Stock Directors. Notwithstanding anything else contained herein, whenever the holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of such class or series of Preferred Stock adopted by resolution or resolutions adopted by the Board of Directors pursuant to Article 4(B) hereto, and such directors so elected shall not be subject to the provisions of this Article 7 unless otherwise provided therein.

ARTICLE 8.
MEETINGS OF STOCKHOLDERS

(A) Annual Meetings. An annual meeting of stockholders for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting shall be held at such place, on such date, and at such time as the Board of Directors shall determine.

(B) Special Meetings.

(1) Special meetings of stockholders may be called only by the Board of Directors or the Chairman of the Board; *provided that*, until the Effective Date, special meetings of stockholders will also be called by the Secretary of the Corporation at the request of the holders of a majority of the total voting power of all outstanding voting securities of the Corporation.

(2) Notwithstanding the foregoing, whenever holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, such holders may call, pursuant to the terms of such class or series of Preferred Stock adopted by resolution or resolutions of the Board of Directors pursuant to Article 4(B) hereto, special meetings of holders of such Preferred Stock.

(C) Action by Written Consent of the Stockholders.

(1) Until the Effective Date, any action required or permitted to be taken at any annual or special meeting of stockholders may be taken (i) by a vote of stockholders at a meeting of stockholders duly noticed and called in accordance with Delaware Law or (ii) without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding voting securities of the Corporation having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(2) From and after the Effective Date, any action required or permitted to be taken at any annual or special meeting of stockholders may only be taken upon a vote of stockholders at an annual or special meeting of stockholders duly noticed and called in accordance with the Corporation's bylaws and Delaware Law and may not be taken by written consent of stockholders without a meeting.

ARTICLE 9.
INDEMNIFICATION

(A) Limited Liability. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware Law.

(B) Right to Indemnification.

(1) Each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Delaware Law. The right to indemnification conferred in this Article 9 shall also include the right to be paid by the Corporation the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Delaware Law. The right to indemnification conferred in this Article 9 shall be a contract right.

(2) The Corporation may, by action of its Board of Directors, provide indemnification to such of the employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by Delaware Law.

(C) Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under Delaware Law.

(D) Nonexclusivity of Rights. The rights and authority conferred in this Article 9 shall not be exclusive of any other right that any person may otherwise have or hereafter acquire.

(E) Preservation of Rights. Neither the amendment nor repeal of this Article 9, nor the adoption of any provision of this Certificate of Incorporation or the Bylaws, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall adversely affect any right or protection of any person granted pursuant hereto existing at, or arising out of or related to any event, act or omission that occurred prior to, the time of such amendment, repeal, adoption or modification (regardless of when any proceeding (or part thereof) relating to such event, act or omission arises or is first threatened, commenced or completed).

ARTICLE 10
EXCLUSIVE FORUM

(A) Corporate Claim Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) and any appellate court therefrom shall be the sole and exclusive forum for the following claims or causes of action under the Delaware statutory or common law:

(a) any derivative claim or cause of action brought on behalf of the Corporation;

(b) any claim or cause of action for breach of a fiduciary duty owed by any current or former director, officer or other employee of the Corporation, to the Corporation or the Corporation's stockholders;

(c) any claim or cause of action against the Corporation or any current or former director, officer or other employee of the Corporation, arising out of or pursuant to any provision of the DGCL, this Certificate of Incorporation or the Bylaws (as each may be amended from time to time);

(d) any claim or cause of action seeking to interpret, apply, enforce or determine the validity of this Certificate of Incorporation or the Bylaws (as each may be amended from time to time, including any right, obligation, or remedy thereunder);

(e) any claim or cause of action as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware; and

(f) any claim or cause of action against the Corporation or any current or former director, officer or other employee of the Corporation, governed by the internal-affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court having personal jurisdiction over the indispensable parties named as defendants.

This Article 10(A) shall not apply to claims or causes of action brought to enforce a duty or liability created by the Securities Act of 1933, as amended (the "**Securities Act**"), or the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or any other claim for which the federal courts have exclusive jurisdiction.

(B) Securities Act Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. This Article 10(B) shall not apply to claims or causes of action brought to enforce a duty or liability created by the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction.

ARTICLE 11.
AMENDMENTS

The Corporation reserves the right to amend this Certificate of Incorporation in any manner permitted by the Delaware Law and all rights and powers conferred upon stockholders, directors and officers herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in Articles 4(C), 6, 7, 8 and this Article 11 may not be repealed or amended in any respect, and no other provision may be adopted, amended or repealed which would have the effect of modifying or permitting the circumvention of the provisions set forth in any of Articles 4(C), 6, 7, 8 or this Article 11, unless such action is approved by the affirmative vote of the holders of not less than 66 2/3% of the total voting power of all outstanding voting securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

IN WITNESS WHEREOF, the undersigned has executed this Amended and Restated Certificate of Incorporation this _____ day of _____, 2022.

Jim Tsai
Chief Executive Officer and Director

AMENDED AND RESTATED BYLAWS

OF

SNAIL, INC.

* * * * *

ARTICLE 1
OFFICES

Section 1.01. *Registered Office.* The registered office of Snail, Inc. (the "**Corporation**") shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 1.02. *Other Offices.* The Corporation may also have offices at such other places both within and without the State of Delaware as the board of directors of the Corporation (the "**Board of Directors**") may from time to time determine or the business of the Corporation may require.

Section 1.03. *Books.* The books of the Corporation may be kept within or without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2
MEETINGS OF STOCKHOLDERS

Section 2.01. *Time and Place of Meetings.* All meetings of stockholders shall be held at such place, either within or without the State of Delaware, on such date and at such time as may be determined from time to time by the Board of Directors (or the Chairman of the Board of Directors in the absence of a designation by the Board of Directors).

Section 2.02. *Annual Meetings.* Unless directors are elected by written consent in lieu of an annual meeting as permitted by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended ("**Delaware Law**"), and the certificate of incorporation, an annual meeting of stockholders, commencing with the year 2023, shall be held for the election of directors and to transact such other business as may properly be brought before the meeting.

Section 2.03. *Special Meetings.*

(a) Except as otherwise provided in the certificate of incorporation, special meetings of stockholders may be called by the Board of Directors or the chairman of the board and, until the Effective Date (as such term is defined in the certificate of incorporation), will be called by the secretary of the Corporation at the request of the holders of a majority of the total voting power of all outstanding voting securities of the Corporation. Such request shall state the purpose or purposes of the proposed meeting.

(b) A special meeting shall be held at such date, time and place as may be fixed by the Board of Directors in accordance with these bylaws.

(c) Business conducted at a special meeting shall be limited to the matters described in the applicable request for such special meeting and any other matters as the Board of Directors shall determine.

Section 2.04. *Notice of Meetings and Adjourned Meetings; Waivers of Notice.* (a) Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by Delaware Law, such notice shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder of record entitled to vote at such meeting. The Board of Directors or the chairman of the meeting may adjourn the meeting to another time or place (whether or not a quorum is present), and notice need not be given of the adjourned meeting if the time, place, if any, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, are announced at the meeting at which such adjournment is made. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

(b) A written waiver of any such notice signed by the person entitled thereto, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 2.05. *Quorum*. Unless otherwise provided under the Certificate of Incorporation or these Bylaws and subject to Delaware Law, the presence, in person or by proxy, of the holders of a majority of the total voting power of all outstanding securities of the Corporation generally entitled to vote at a meeting of stockholders shall constitute a quorum for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the chairman of the meeting or a majority in voting interest of the stockholders present in person or represented by proxy may adjourn the meeting, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted that might have been transacted at the meeting as originally notified.

Section 2.06. *Voting*. (a) Unless otherwise provided in the Certificate of Incorporation and subject to Delaware Law, each stockholder shall be entitled to one vote for each outstanding share of capital stock of the Corporation held by such stockholder. Any share of capital stock of the Corporation held by the Corporation shall have no voting rights. Except as otherwise required by law, the Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative vote of the holders of a majority of the votes cast at the meeting on the subject matter shall be the act of the stockholders. Abstentions and broker non-votes shall not be counted as votes cast. Subject to the rights of the holders of any class or series of preferred stock to elect additional directors under specific circumstances, as may be set forth in the certificate of designations for such class or series of preferred stock, directors shall be elected by a plurality of the votes of the shares of capital stock of the Corporation present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

(b) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to a corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, appointed by an instrument in writing, subscribed by such stockholder or by his attorney thereunto authorized, or by proxy sent by cable, telegram or by any means of electronic communication permitted by law, which results in a writing from such stockholder or by his attorney, and delivered to the secretary of the meeting. No proxy shall be voted after three (3) years from its date, unless said proxy provides for a longer period.

Section 2.07. *Action by Consent.*

(a) Until the Effective Date and unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders, or any action which may be taken at any annual or special meeting of stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding capital stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take the action were delivered to the Corporation as provided in Section 2.07(b).

(b) Every written consent shall bear the date of signature of each stockholder who signs the consent, and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated consent delivered in the manner required by this section and Delaware Law to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation in the manner required by this Section 2.08 and Delaware Law.

Section 2.08. *Organization.* At each meeting of stockholders, the Chairman of the Board of Directors, if one shall have been elected, or in the Chairman's absence or if one shall not have been elected, the director designated by the vote of the majority of the directors present at such meeting, shall act as chairman of the meeting. The Secretary (or in the Secretary's absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting) shall act as secretary of the meeting and keep the minutes thereof.

Section 2.09. *Order of Business.* The order of business at all meetings of stockholders shall be as determined by the chairman of the meeting.

Section 2.10. *Nomination of Directors and Proposal of Other Business.*

(a) *Annual Meetings of Stockholders*. (i) Nominations of persons for election to the Board of Directors or the proposal of other business to be transacted by the stockholders at an annual meeting of stockholders may be made only (A) pursuant to the Corporation's notice of meeting (or any supplement thereto), (B) by or at the direction of the Board of Directors or any committee thereof or (C) as may be provided in the certificate of designations for any class or series of preferred stock or (D) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in paragraph (ii) of this Section 2.10(a) and at the time of the annual meeting, who shall be entitled to vote at the meeting and who complies with the procedures set forth in this Section 2.10(a), and, except as otherwise required by law, any failure to comply with these procedures shall result in the nullification of such nomination or proposal.

(ii) For nominations or other business to be properly brought before an annual meeting of stockholders by a stockholder pursuant to clause (D) of paragraph (i) of this Section 2.10(a), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business (other than the nominations of persons for election to the Board of Directors) must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation not less than 120 days nor more than 150 days prior to the first anniversary of the preceding year's annual meeting of stockholders; *provided, however*, that in the event that the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 70 days after such anniversary date then to be timely such notice must be received by the Corporation no earlier than 120 days prior to such annual meeting and no later than the later of 70 days prior to the date of the meeting or the 10th day following the day on which public announcement of the date of the meeting was first made by the Corporation. In no event shall the adjournment or postponement of any meeting, or any announcement thereof, commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(iii) A stockholder's notice to the Secretary shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director: (1) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (as amended (together with the rules and regulations promulgated thereunder), the "**Exchange Act**")) including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and (2) a reasonably detailed description of any compensatory, payment or other financial agreement, arrangement or understanding that such person has with any other person or entity other than the Corporation including the amount of any payment or payments received or receivable thereunder, in each case in connection with candidacy or service as a director of the Corporation (a "**Third-Party Compensation Arrangement**"), (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend these Bylaws, the text of the proposed amendment), the reasons for conducting such business and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made:

(1) the name and address of such stockholder (as they appear on the Corporation's books) and any such beneficial owner;

(2) for each class or series, the number of shares of capital stock of the Corporation that are held of record or are beneficially owned by such stockholder and by any such beneficial owner;

(3) a description of any agreement, arrangement or understanding between or among such stockholder and any such beneficial owner, any of their respective affiliates or associates, and any other person or persons (including their names) in connection with the proposal of such nomination or other business;

(4) a description of any agreement, arrangement or understanding (including, regardless of the form of settlement, any derivative, long or short positions, profit interests, forwards, futures, swaps, options, warrants, convertible securities, stock appreciation or similar rights, hedging transactions and borrowed or loaned shares) that has been entered into by or on behalf of, or any other agreement, arrangement or understanding that has been made, the effect or intent of which is to create or mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, such stockholder or any such beneficial owner or any such nominee with respect to the Corporation's securities;

(5) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to bring such nomination or other business before the meeting;

(6) a representation as to whether such stockholder or any such beneficial owner intends or is part of a group that intends to (i) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the voting power of the Corporation's outstanding capital stock required to approve or adopt the proposal or to elect each such nominee and/or (ii) otherwise to solicit proxies from stockholders in support of such proposal or nomination;

(7) any other information relating to such stockholder, beneficial owner, if any, or director nominee or proposed business that would be required to be disclosed in a proxy statement or other filing required to be made in connection with the solicitation of proxies in support of such nominee or proposal pursuant to Section 14 of the Exchange Act; and

(8) such other information relating to any proposed item of business as the Corporation may reasonably require to determine whether such proposed item of business is a proper matter for stockholder action.

If requested by the Corporation, the information required under clauses 2.10(a)(iii)(C)(2), (3) and (4) of the preceding sentence of this Section 2.10 shall be supplemented by such stockholder and any such beneficial owner not later than 10 days after the record date for the meeting to disclose such information as of the record date.

(b) *Special Meetings of Stockholders*. If the election of directors is included as business to be brought before a special meeting in the Corporation's notice of meeting, then nominations of persons for election to the Board of Directors at a special meeting of stockholders may be made by any stockholder who is a stockholder of record at the time of giving of notice provided for in this Section 2.10(b) and at the time of the special meeting, who shall be entitled to vote at the meeting and who complies with the procedures set forth in this Section 2.10(b). For nominations to be properly brought by a stockholder before a special meeting of stockholders pursuant to this Section 2.10(b), the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation (A) not earlier than 150 days prior to the date of the special meeting nor (B) later than the later of 120 days prior to the date of the special meeting or the 10th day following the day on which public announcement of the date of the special meeting was first made. A stockholder's notice to the Secretary shall comply with the notice requirements of Section 2.10(a)(iii).

(c) *General*. (i) To be eligible to be a nominee for election as a director, the proposed nominee must provide to the Secretary of the Corporation in accordance with the applicable time periods prescribed for delivery of notice under Section 2.10(a)(ii) or Section 2.10(b): (1) a completed questionnaire (in the form provided by the secretary of the Corporation at the request of the nominating stockholder) containing information regarding the nominee's background and qualifications and such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation or to serve as an independent director of the Corporation, (2) a written representation that, unless previously disclosed to the Corporation, the nominee is not and will not become a party to any voting agreement, arrangement or understanding with any person or entity as to how such nominee, if elected as a director, will vote on any issue or that could interfere with such person's ability to comply, if elected as a director, with his/her fiduciary duties under applicable law, (3) a written representation and agreement that, unless previously disclosed to the Corporation pursuant to Section 2.10(a)(iii)(A)(2), the nominee is not and will not become a party to any Third-Party Compensation Arrangement and (4) a written representation that, if elected as a director, such nominee would be in compliance and will continue to comply with the Corporation's corporate governance guidelines as disclosed on the Corporation's website, as amended from time to time. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation the information that is required to be set forth in a stockholder's notice of nomination that pertains to the nominee.

(ii) No person shall be eligible to be nominated by a stockholder to serve as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.10. No business proposed by a stockholder shall be conducted at a stockholder meeting except in accordance with this Section 2.10

(iii) The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws or that business was not properly brought before the meeting, and if he/she should so determine, he/she shall so declare to the meeting and the defective nomination shall be disregarded or such business shall not be transacted, as the case may be. Notwithstanding the foregoing provisions of this Section 2.10, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or other proposed business, such nomination shall be disregarded or such proposed business shall not be transacted, as the case may be, notwithstanding that proxies in respect of such vote may have been received by the Corporation and counted for purposes of determining a quorum. For purposes of this Section 2.10, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(iv) Without limiting the foregoing provisions of this Section 2.10, a stockholder shall also comply with all applicable requirements of the Exchange Act with respect to the matters set forth in this Section 2.10; *provided*, *however*, that any references in these Bylaws to the Exchange Act are not intended to and shall not limit any requirements applicable to nominations or proposals as to any other business to be considered pursuant to this Section 2.10, and compliance with paragraphs (a)(i)(C) and (b) of this Section 2.10 shall be the exclusive means for a stockholder to make nominations or submit other business (other than as provided in Section 2.10(c)(v)).

(v) Notwithstanding anything to the contrary, the notice requirements set forth herein with respect to the proposal of any business pursuant to this Section 2.10 shall be deemed satisfied by a stockholder if such stockholder has submitted a proposal to the Corporation in compliance with Rule 14a-8 under the Exchange Act, and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for the meeting of stockholders.

ARTICLE 3
DIRECTORS

Section 3.01. *General Powers.* Except as otherwise provided in Delaware Law or the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

Section 3.02. *Number, Election, Classes and Term Of Office.*

(a) Subject to the terms of any series of preferred stock of the Corporation entitled to separately elect directors, the Board of Directors shall consist of not less than five nor more than nine directors, with the exact number of directors to be determined from time to time solely by resolution adopted by the affirmative vote of a majority of the entire Board of Directors.

(b) Until the Effective Date, all of the directors will be elected annually at the annual meeting of stockholders.

(c) From and after the Effective Date, except as otherwise provided in the terms of any series of Preferred Stock entitled to separately elect directors, the directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be practicable, of one-third of the total number of directors constituting the entire Board of Directors. The Board of Directors is hereby authorized to assign members of the Board of Directors in office at the Effective Date to such classes. Except as otherwise provided in the Certificate of Incorporation, each director shall serve for a term ending on the date of the third annual meeting of stockholders next following the annual meeting at which such director was elected.

(d) Each director shall hold office until such director's successor shall have been duly elected and qualified or until such director's earlier death, resignation or removal and, in the case of a classified board, for a term that shall coincide with the term of the class to which such director shall have been elected. Directors need not be stockholders.

Section 3.03. *Quorum and Manner of Acting.* Unless the Certificate of Incorporation or these Bylaws require a greater number, a majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors and, except as otherwise expressly required by law or by the Certificate of Incorporation, the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. When a meeting is adjourned to another time or place (whether or not a quorum is present), notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Board of Directors may transact any business which might have been transacted at the original meeting. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat shall adjourn the meeting, from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.04. *Time and Place of Meetings.* The Board of Directors shall hold its meetings at such place, either within or without the State of Delaware, and at such time as may be determined from time to time by the Board of Directors (or the Chairman of the Board of Directors in the absence of a determination by the Board of Directors).

Section 3.05. *Annual Meeting.* The Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable after each annual meeting of stockholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such place either within or without the State of Delaware, on such date and at such time as shall be specified in a notice thereof given as hereinafter provided in Section 3.07 herein or in a waiver of notice thereof signed by any director who chooses to waive the requirement of notice.

Section 3.06. *Regular Meetings.* After the place and time of regular meetings of the Board of Directors shall have been determined and notice thereof shall have been once given to each member of the Board of Directors, regular meetings may be held without further notice being given.

Section 3.07. *Special Meetings.* Special meetings of the Board of Directors may be called by the chairman of the board or the chief executive officer and shall be called by the secretary on the written request of at least two directors. Notice of special meetings of the Board of Directors shall be given to each director at least 24 hours before the date of the meeting in such manner as is determined by the Board of Directors.

Section 3.08. *Committees.* The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by Delaware Law to be submitted to the stockholders for approval or (b) adopting, amending or repealing any Bylaw of the Corporation. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

Section 3.09. *Action by Consent.* Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions, are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 3.10. *Telephonic Meetings.* Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or such committee, as the case may be, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.11. *Resignation.* Any director may resign from the Board of Directors at any time by giving notice to the Board of Directors or to the Secretary of the Corporation. Any such notice must be in writing or by electronic transmission to the Board of Directors or to the Secretary of the Corporation. The resignation of any director shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.12. *Vacancies.* Unless otherwise provided in the Certificate of Incorporation, vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors shall, except as otherwise required by law, be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director, and each director so elected shall hold office for a term that shall coincide with the term of the Class to which such director shall have been elected. If there are no directors in office, then an election of directors may be held in accordance with Delaware Law. Unless otherwise provided in the Certificate of Incorporation, when one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in the filling of the other vacancies.

Section 3.13. *Removal.* No director may be removed from office by the stockholders except for cause with the affirmative vote of the holders of not less than a majority of the total voting power of all outstanding securities of the corporation generally entitled to vote in the election of directors, voting together as a single class.

Section 3.14. *Compensation.* Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have authority to fix the compensation of directors, including fees and reimbursement of expenses.

Section 3.15. *Preferred Stock Directors.* Notwithstanding anything else contained herein, whenever the holders of one or more classes or series of preferred stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of the resolutions applicable thereto adopted by the Board of Directors pursuant to the Certificate of Incorporation, and such directors so elected shall not be subject to the provisions of Sections 3.02, 3.12 and 3.13 of this Article 3 unless otherwise provided therein.

ARTICLE 4
OFFICERS

Section 4.01. *Principal Officers.* The principal officers of the Corporation shall be a Chief Executive Officer, a President, one or more Vice Presidents, a Treasurer and a Secretary who shall have the duty, among other things, to record the proceedings of the meetings of stockholders and directors in a book kept for that purpose. The Corporation may also have such other principal officers, including one or more Controllers, as the Board of Directors may in its discretion appoint. One person may hold the offices and perform the duties of any two or more of said offices, except that no one person shall hold the offices and perform the duties of President and Secretary.

Section 4.02. *Appointment, Term of Office and Remuneration.* The principal officers of the Corporation shall be appointed by the Board of Directors in the manner determined by the Board of Directors. Each such officer shall hold office until his or her successor is appointed, or until his or her earlier death, resignation or removal. The remuneration of all officers of the Corporation shall be fixed by the Board of Directors. Any vacancy in any office shall be filled in such manner as the Board of Directors shall determine.

Section 4.03. *Subordinate Officers.* In addition to the principal officers enumerated in Section 4.01 herein, the Corporation may have one or more Assistant Treasurers, Assistant Secretaries and Assistant Controllers and such other subordinate officers, agents and employees as the Board of Directors may deem necessary, each of whom shall hold office for such period as the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove any such subordinate officers, agents or employees.

Section 4.04. *Removal.* Except as otherwise permitted with respect to subordinate officers, any officer may be removed, with or without cause, at any time, by resolution adopted by the Board of Directors.

Section 4.05. *Resignations.* Any officer may resign at any time by giving notice to the Board of Directors (or to a principal officer if the Board of Directors has delegated to such principal officer the power to appoint and to remove such officer). Any such notice must be in writing. The resignation of any officer shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.06. *Powers and Duties.* The officers of the Corporation shall have such powers and perform such duties incident to each of their respective offices and such other duties as may from time to time be conferred upon or assigned to them by the Board of Directors.

ARTICLE 5
CAPITAL STOCK

Section 5.01. *Certificates for Stock; Uncertificated Shares.* The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares or a combination of certificated and uncertificated shares. Any such resolution that shares of a class or series will only be uncertificated shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Except as otherwise required by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of shares represented by certificates of the same class and series shall be identical. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the Corporation by the Chairman or Vice Chairman of the Board of Directors, or the Chief Executive Officer, President or Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of such Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The Corporation shall not have power to issue a certificate in bearer form.

Section 5.02. *Transfer of Shares.* Shares of the stock of the Corporation may be transferred on the record of stockholders of the Corporation by the holder thereof or by such holder's duly authorized attorney upon surrender of a certificate therefor properly endorsed or upon receipt of proper transfer instructions from the registered holder of uncertificated shares or by such holder's duly authorized attorney and upon compliance with appropriate procedures for transferring shares in uncertificated form, unless waived by the Corporation.

Section 5.03. *Authority for Additional Rules Regarding Transfer.* The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration of certificated or uncertificated shares of the stock of the Corporation, as well as for the issuance of new certificates in lieu of those which may be lost or destroyed, and may require of any stockholder requesting replacement of lost or destroyed certificates, bond in such amount and in such form as they may deem expedient to indemnify the Corporation, and/or the transfer agents, and/or the registrars of its stock against any claims arising in connection therewith.

ARTICLE 6
GENERAL PROVISIONS

Section 6.01. *Fixing the Record Date.* (a) In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing such record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided* that the Board of Directors may in its discretion or as required by law fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall fix the same date or an earlier date as the record date for stockholders entitled to notice of such adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 6.02. *Dividends.* Subject to limitations contained in Delaware Law and the Certificate of Incorporation, the Board of Directors may declare and pay dividends upon the shares of capital stock of the Corporation, which dividends may be paid either in cash, in property or in shares of the capital stock of the Corporation.

Section 6.03. *Year.* The fiscal year of the Corporation shall commence on January 1 and end on December 31 of each year.

Section 6.04. *Corporate Seal.* The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed, affixed or otherwise reproduced.

Section 6.05. *Voting of Stock Owned by the Corporation.* The Board of Directors may authorize any person, on behalf of the Corporation, to attend, vote at and grant proxies to be used at any meeting of stockholders of any corporation (except this Corporation) in which the Corporation may hold stock.

Section 6.06. *Amendments.* These Bylaws or any of them, may be altered, amended or repealed, or new Bylaws may be made, by the stockholders entitled to vote thereon at any annual or special meeting thereof or by the Board of Directors. Unless a higher percentage is required by the Certificate of Incorporation as to any matter that is the subject of these Bylaws, all such amendments must be approved by the affirmative vote of the holders of not less than 66⅔% of the total voting power of all outstanding securities of the Corporation, generally entitled to vote in the election of directors, voting together as a single class, or by a majority of the Board of Directors.

NUMBER

NUMBER
C
SHARES
SEE REVERSE FOR
CERTAIN
DEFINITIONS
CUSIP

SNAIL, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
CLASS A COMMON STOCK

This Certifies that _____

is the owner of _____

FULLY PAID AND NON-ASSESSABLE SHARES OF CLASS A COMMON STOCK, PAR VALUE $0.0001 PER SHARE, OF

SNAIL, INC.
(THE "COMPANY")

transferable on the books of the Company in person or by duly authorized attorney upon surrender of this certificate properly endorsed.

This certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile signatures of its duly authorized officers.

Secretary	[Corporate Seal] Delaware	Principal Executive Officer
_____		_____

SNAIL, INC.

The Company will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof of the Company and the qualifications, limitations, or restrictions of such preferences and/or rights. This certificate and the shares represented thereby are issued and shall be held subject to all the provisions of the Company's amended and restated certificate of incorporation and all amendments thereto and resolutions of the Board of Directors providing for the issue of securities (copies of which may be obtained from the secretary of the Company), to all of which the holder of this certificate by acceptance hereof assents. The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	—	as tenants in common	UNIF GIFT MIN ACT	—	_____ Custodian _____
TEN ENT	—	as tenants by the entireties			(Cust) (Minor)
JT TEN	—	as joint tenants with right of survivorship and not as tenants in common			Under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER(S) OF ASSIGNEE(S))

(PLEASE PRINT OR TYPEWRITE NAME(S) AND ADDRESS(ES), INCLUDING ZIP CODE, OF ASSIGNEE(S))

Shares of the capital stock represented by the within Certificate, and do(es) hereby irrevocably constitutes and appoints

Attorney to transfer the said stock on the books of the within named Company with full power of substitution in the premises.

Dated:

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed:
By

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15 (OR ANY SUCCESSOR RULE) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED).

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "**Agreement**"), made and entered into as of the ____ day of _____, 2022, by and between Snail, Inc., a Delaware corporation (the "**Company**"), and _____ ("**Indemnitee**").

W I T N E S S E T H:

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors or officers unless they are provided with adequate protection through insurance or adequate indemnification against risks of claims and actions against them arising out of their service to and activities on behalf of the corporation.

WHEREAS, the Board of Directors of the Company (the "**Board**") has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers, and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself.

WHEREAS, the Certificate of Incorporation of the Company (the "**Certificate of Incorporation**") provides that the Company shall indemnify and advance expenses to all directors and officers of the Company in the manner set forth therein and to the fullest extent permitted by applicable law, and the Certificate of Incorporation provides for limitation of liability for directors. In addition, Indemnitee may be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware ("**DGCL**"). The Certificate of Incorporation and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the Board, officers and other persons with respect to indemnification.

WHEREAS, the uncertainties relating to such insurance and to indemnification have increased the difficulty of attracting and retaining such persons.

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future.

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified.

WHEREAS, this Agreement is a supplement to and in furtherance of the Certificate of Incorporation of the Company and any resolutions adopted pursuant thereto and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

WHEREAS, Indemnitee does not regard the protection available under the Certificate of Incorporation and insurance as adequate in the present circumstances, and may not be willing to serve as an officer or director of the Company without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he or she be so indemnified.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

ARTICLE 1
CERTAIN DEFINITIONS

(a) As used in this Agreement:

"**Change of Control**" means any one of the following circumstances occurring after the date hereof: (i) there shall have occurred an event required to be reported with respect to the Company in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item or any similar schedule or form) under the Exchange Act, regardless of whether the Company is then subject to such reporting requirement; (ii) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) shall have become, without prior approval of the Company's Board by approval of at least a majority of the Continuing Directors, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing a majority of the combined voting power represented by the Company's then outstanding voting securities (provided that, for purposes of this clause (ii), the term "person" shall exclude (x) the Company, (y) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (z) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company); (iii) there occurs a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) a majority of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the Board or other governing body of such surviving entity; (iv) all or substantially all the assets of the Company are sold or disposed of in a transaction or series of related transactions; (v) the approval by the stockholders of the Company of a complete liquidation of the Company; or (vi) the Continuing Directors cease for any reason to constitute at least a majority of the members of the Board.

"**Continuing Director**" means (i) each director on the Board on the date hereof or (ii) any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who were directors on the date hereof or whose election or nomination was so approved.

"**Corporate Status**" means the status of a person who is or was a director, officer, trustee, general partner, managing member, fiduciary, Board committee member, employee or agent of the Company or of any other Enterprise.

"**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

"**Enterprise**" means the Company, any of its subsidiaries, branches, offices, affiliates and any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other entity or enterprise of which, in each case, Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, Board committee member, employee or agent.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Expenses**" means all direct and indirect costs (including attorneys' fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses) reasonably incurred in connection with (i) prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding or (ii) establishing or enforcing a right to indemnification under this Agreement, the Certificate of Incorporation, applicable law or otherwise. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. For the avoidance of doubt, Expenses, however, shall not include any Liabilities.

"**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporate law and neither currently is, nor in the five years previous to its selection or appointment has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements) or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

"**Liabilities**" means any losses or liabilities, including any judgments, fines, excise taxes and penalties, penalties and amounts paid in settlement, arising out of or in connection with any Proceeding (including all interest, assessments and other charges paid or payable in connection with or in respect of any such judgments, fines, excise taxes and penalties, penalties or amounts paid in settlement).

"**Proceeding**" means any threatened, pending or completed action, derivative action, suit, claim, counterclaim, cross claim, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether civil (including intentional and unintentional tort claims), criminal, administrative or investigative, including any appeal therefrom, and whether instituted by or on behalf of the Company or any other party, or any inquiry or investigation that Indemnitee in good faith believes might lead to the institution of any such action, suit or other proceeding hereinabove listed in which Indemnitee was, is or will be involved as a party, potential party, non-party witness or otherwise by reason of any Corporate Status of Indemnitee, or by reason of any action taken (or failure to act) by him or her or of any action (or failure to act) on his or her part while serving in any Corporate Status.

(b) For the purposes of this Agreement:

References to "Company" shall include, in addition to the resulting or surviving corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that if Indemnitee is or was a director, officer, employee, or agent of such constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, then Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

Reference to "other enterprise" shall include employee benefit plans; references to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

Reference to "including" shall mean "including, without limitation," regardless of whether the words "without limitation" actually appear, references to the words "herein," "hereof" and "hereunder" and other words of similar import shall refer to this Agreement as a whole and not to any particular paragraph, subparagraph, section, subsection or other subdivision.

ARTICLE 2
SERVICES BY INDEMNITEE

Section 2.01. *Services By Indemnitee.* Indemnitee hereby agrees to serve or continue to serve as a director, officer or key employee of the Company, for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation or is removed.

ARTICLE 3

INDEMNIFICATION

Section 3.01. *General.* (a) The Company hereby agrees to and shall indemnify Indemnitee and hold Indemnitee harmless from and against any and all Expenses and Liabilities, in either case, actually and reasonably incurred by Indemnitee or on Indemnitee's behalf by reason of Indemnitee's Corporate Status, to the fullest extent permitted by applicable law. The Company's indemnification obligations set forth in this Section 3.01 shall apply (i) in respect of Indemnitee's past, present and future service in any Corporate Status and (ii) regardless of whether Indemnitee is serving in any Corporate Status at the time any such Expense or Liability is incurred.

For purposes of this Agreement, the meaning of the phrase "to the fullest extent permitted by applicable law" shall include, but not be limited to:

(i) to the fullest extent permitted by any provision of the DGCL, or the corresponding provision of any successor statute, and

(ii) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

(b) *Witness Expenses*. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he or she shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on his or her behalf in connection therewith.

(c) *Expenses as a Party Where Wholly or Partly Successful*. Notwithstanding any other provisions of this Agreement, to the fullest extent permitted by applicable law, to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or her in connection therewith. If Indemnitee is not wholly successful in such Proceeding, but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall, to the fullest extent permitted by applicable law, indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on his or her behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 3.02. *Exclusions.* Notwithstanding any provision of this Agreement and unless Indemnitee ultimately is successful on the merits with respect to any such claim, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for (i) an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law or (ii) any reimbursement of the Company by Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act); or

(b) except as otherwise provided in Section 6.01(e), prior to a Change of Control, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee (other than any cross claim or counterclaim asserted by the Indemnitee), including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

ARTICLE 4
Advancement of Expenses; Defense of Claims

Section 4.01. *Advances.* Notwithstanding any provision of this Agreement to the contrary, the Company shall advance any Expenses actually and reasonably incurred by Indemnitee in connection with any Proceeding within thirty (30) days after the receipt by the Company of each statement requesting such advance from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay such amounts and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed.

Section 4.02. *Repayment of Advances or Other Expenses.* Indemnitee agrees that Indemnitee shall reimburse the Company for all Expenses advanced by the Company pursuant to Section 4.01, in the event and only to the extent that it shall be determined by final judgment or other final adjudication under the provisions of any applicable law (as to which all rights of appeal therefrom have been exhausted or lapsed) that Indemnitee is not entitled to be indemnified by the Company for such Expenses.

Section 4.03. *Defense of Claims*. The Company will be entitled to participate in the Proceeding at its own expense. The Company shall be entitled to assume the defense of any Proceeding with counsel consented to by Indemnitee (such consent not to be unreasonably withheld) upon the delivery by the Company to Indemnitee of written notice of the Company's election to do so. After delivery of such notice, consent to such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees or expenses of counsel subsequently incurred by Indemnitee with respect to such Proceeding; *provided* that (i) Indemnitee shall have the right to employ separate counsel in respect of any Proceeding at Indemnitee's expense and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized in writing by the Company or (B) Indemnitee shall have reasonably concluded upon the advice of counsel that there is a conflict of interest between the Company and Indemnitee in the conduct of the defense of such Proceeding, then in each such case the fees and expenses of Indemnitee's counsel shall be at the Company's expense. The Company shall not settle any action, claim or Proceeding (in whole or in part) which would impose any Expense, judgment, fine, penalty or limitation on Indemnitee without Indemnitee's prior written consent, such consent not to be unreasonably withheld. Indemnitee shall not settle any action, claim or Proceeding (in whole or in part) without the Company's prior written consent, such consent not to be unreasonably withheld.

ARTICLE 5
Procedures For Notification of and Determination of Entitlement To Indemnification

Section 5.01. *Notification; Request For Indemnification.* (a) As soon as reasonably practicable after receipt by Indemnitee of written notice that he or she is a party to or a participant (as a witness or otherwise) in any Proceeding or of any other matter in respect of which Indemnitee intends to seek indemnification or advancement of Expenses hereunder, Indemnitee shall provide to the Company written notice thereof, including the nature of and the facts underlying the Proceeding. The omission by Indemnitee to so notify the Company will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise.

(b) To obtain indemnification under this Agreement, Indemnitee shall deliver to the Company a written request for indemnification, including therewith such information as is reasonably available to Indemnitee and reasonably necessary to determine Indemnitee's entitlement to indemnification hereunder. Such request(s) may be delivered from time to time and at such time(s) as Indemnitee deems appropriate in his or her sole discretion. Indemnitee's entitlement to indemnification shall be determined according to Section 5.02 of this Agreement and applicable law.

Section 5.02. *Determination of Entitlement.* (a) Where there has been a written request by Indemnitee for indemnification pursuant to Section 5.01(b), then as soon as is reasonably practicable (but in any event not later than 60 days) after final disposition of the relevant Proceeding, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change of Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (ii) if a Change of Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within twenty (20) days after such determination. Indemnitee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) actually and reasonably incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification).

(b) If entitlement to indemnification is to be determined by Independent Counsel pursuant to Section 5.02(a)(ii), such Independent Counsel shall be selected by Indemnitee, and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. If entitlement to indemnification is to be determined by Independent Counsel pursuant to Section 5.02(a)(i)(C) (or if Indemnitee requests that such selection be made by the Board), such Independent Counsel shall be selected by the Company in which case the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within 10 days after such written notice of selection shall have been received, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court of competent jurisdiction has determined that such objection is without merit. If, within 20 days after the later of submission by Indemnitee of a written request for indemnification pursuant to Section 5.01(b) hereof and the final disposition of the Proceeding, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 5.02(a) hereof. Upon the due commencement of any judicial proceeding pursuant to Section 6.01(a) of this Agreement, the Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(c) The Company agrees to pay the reasonable fees and expenses of any Independent Counsel serving under this Agreement.

Section 5.03. *Presumptions and Burdens of Proof; Effect of Certain Proceedings.* (a) In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 5.01(b) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of any person, persons or entity to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by any person, persons or entity that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) If the person, persons or entity empowered or selected under Section 5.02 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within the sixty (60) day period referred to in Section 5.02(a), the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; *provided*, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is in good faith reliance on the records or books of account of any Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of such Enterprise in the course of their duties, or on the advice of legal counsel for such Enterprise or on information or records given or reports made to such Enterprise by an independent certified public accountant or by an appraiser or other expert selected by such Enterprise. The provisions of this Section 5.03(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any other director, trustee, partner, managing member, fiduciary, officer, agent or employee of any Enterprise shall not be imputed to Indemnitee for purposes of determining any right to indemnification under this Agreement.

ARTICLE 6
REMEDIES OF INDEMNITEE

Section 6.01. *Adjudication*. (a) In the event of any dispute between Indemnitee and the Company hereunder as to entitlement to indemnification or advancement of Expenses (including where (i) a determination is made pursuant to Section 5.02 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 4.01 of this Agreement, (iii) payment of indemnification pursuant to Section 3.01 of this Agreement is not made within twenty (20) days after a determination has been made that Indemnitee is entitled to indemnification, (iv) no determination as to entitlement to indemnification is timely made pursuant to Section 5.02 of this Agreement and no payment of indemnification is made within ten (10) days after entitlement is deemed to have been determined pursuant to Section 5.03(b)) or (v) a contribution payment is not made in a timely manner pursuant to Section 8.04 of this Agreement, then Indemnitee shall be entitled to an adjudication by a court of his or her entitlement to such indemnification, contribution or advancement.

(b) In the event that a determination shall have been made pursuant to Section 5.02(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 6.01 shall be conducted in all respects as a *de novo* trial on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding commenced pursuant to this Section 6.01 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be, and the Company may not refer to or introduce into evidence any determination pursuant to Section 5.02(a) of this Agreement adverse to Indemnitee for any purpose. If Indemnitee commences a judicial proceeding pursuant to this Section 6.01, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 4.02 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed).

(c) If a determination shall have been made pursuant to Section 5.02(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 6.01, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 6.01 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement.

(e) The Company shall indemnify Indemnitee to the fullest extent permitted by law against all Expenses and, if requested by Indemnitee, shall (within twenty (20) days after the Company's receipt of such written request) advance such Expenses to Indemnitee, which are reasonably incurred by Indemnitee in connection with any judicial proceeding brought by Indemnitee for (i) indemnification or advances of Expenses by the Company (or otherwise for the enforcement, interpretation or defense of his or her rights) under this Agreement or any other agreement, including any other indemnification, contribution or advancement agreement, or any provision of the Certificate of Incorporation now or hereafter in effect or (ii) recovery or advances under any directors' and officers' liability insurance policy maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, contribution, advancement or insurance recovery, as the case may be.

ARTICLE 7
Directors' and Officers' Liability Insurance

Section 7.01. *D&O Liability Insurance.* The Company shall obtain and maintain a policy or policies of insurance ("**D&O Liability Insurance**") with reputable insurance companies providing liability insurance for directors and officers of the Company in their capacities as such (and for any capacity in which any director or officer of the Company serves any other Enterprise at the request of the Company), in respect of acts or omissions occurring while serving in such capacity.

Section 7.02. *Evidence of Coverage.* Upon request by Indemnitee, the Company shall provide copies of all policies of D&O Liability Insurance obtained and maintained in accordance with Section 7.01 of this Agreement. The Company shall promptly notify Indemnitee of any changes in such insurance coverage.

ARTICLE 8

MISCELLANEOUS

Section 8.01. *Nonexclusivity of Rights*. The rights of indemnification, contribution and advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled to under applicable law, the Certificate of Incorporation, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

Section 8.02. *Insurance and Subrogation.* (a) Indemnitee shall be covered by the Company's D&O Liability Insurance in accordance with its or their terms to the maximum extent of the coverage available for any director or officer under such policy or policies. If, at the time the Company receives notice of a claim hereunder, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies. The failure or refusal of any such insurer to pay any such amount shall not affect or impair the obligations of the Company under this Agreement.

(b) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or for which advancement is provided) hereunder if and to the extent that Indemnitee has actually received such payment under any insurance policy or other indemnity provision.

Section 8.03 The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, fiduciary, Board committee member, employee or agent of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of Expenses from such Enterprise.

Section 8.04. *Contribution.* To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving rise to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

Section 8.05. *Amendment.* This Agreement may not be modified or amended except by a written instrument executed by or on behalf of each of the parties hereto. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit, restrict or reduce any right of Indemnitee under this Agreement in respect of any act or omission, or any event occurring, prior to such amendment, alteration or repeal. To the extent that a change in applicable law, whether by statute or judicial decision, (i) permits greater indemnification, contribution or advancement of Expenses than would be afforded currently under the Certificate of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change or (ii) limits rights with respect to indemnification, contribution or advancement of Expenses, it is the intent of the parties hereto that the rights with respect to indemnification, contribution or advancement of Expenses in effect prior to such change shall remain in full force and effect to the extent permitted by applicable law.

Section 8.06. *Waivers.* The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term only by a writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided herein, no delay on the part of any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party hereto of any right, power or privilege hereunder operate as a waiver of any other right, power or privilege hereunder nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

Section 8.07. *Entire Agreement.* This Agreement and the documents referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby are superseded by this Agreement, provided that this Agreement is a supplement to and in furtherance of the Certificate of Incorporation of the Company and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

Section 8.08. *Severability.* If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 8.09. *Notices.* All notices, requests, demands and other communications under this Agreement shall be in writing (which may be by email or facsimile transmission). All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:30 p.m. in the place of receipt and such day is a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding business day in the place of receipt. The address for notice to the Company is:

Snail, Inc.
12049 Jefferson Blvd.
Culver City, CA 90230
Attention: Heidy Chow
Email: heidyc@snailgamesusa.com

The address for notice to Indemnitee is set forth on the signature page of this Agreement. Any party may change the address for notice by giving written notice to the other party as provided herein.

Section 8.10. *Binding Effect.* (a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

(b) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, and executors, administrators, personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all, or a substantial part of the business or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(c) The indemnification, contribution and advancement of Expenses provided by, or granted pursuant to this Agreement shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors, administrators, legatees and assigns of such a person.

Section 8.11. *Governing Law.* This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules.

Section 8.12. *Consent to Jurisdiction.* The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the "**Delaware Court**"), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 8.13. *Headings.* The Article and Section headings in this Agreement are for convenience of reference only, and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

Section 8.14. *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement. The Company shall be entitled to assume the defense of any Proceeding with counsel consented to by Indemnitee (such consent not to be unreasonably withheld) upon the delivery by the Company to Indemnitee of written notice of the Company's election to do so. After delivery of such notice, consent to such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees or expenses of counsel subsequently incurred by Indemnitee with respect to such Proceeding; *provided* that (i) Indemnitee shall have the right to employ separate counsel in respect of any Proceeding at Indemnitee's expense and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized in writing by the Company or (B) Indemnitee shall have reasonably concluded upon the advice of counsel that there is a conflict of interest between the Company and Indemnitee in the conduct of the defense of such Proceeding, then in each such case the fees and expenses of Indemnitee's counsel shall be at the Company's expense.

Section 8.15. *Use of Certain Terms.* As used in this Agreement, the words "herein," "hereof," and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular paragraph, subparagraph, section, subsection, or other subdivision. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.

SNAIL, INC.

By: _____
Name:
Title:

INDEMNITEE:

_____

Address:

With a copy to:

Address:
Attention:
Email:

[*Signature Page to Indemnification Agreement*]

Exhibit 10.2

SECOND AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT

SNAIL GAMES USA INC.,
a California corporation

and

CATHAY BANK,
a California banking corporation

Dated as of January 26, 2022

THIS SECOND AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT ("Agreement") is entered into as of January 26, 2022, by and among **SNAIL GAMES USA INC.**, a California corporation ("Borrower"), on the one hand, and **CATHAY BANK**, a California banking corporation ("Lender"), on the other hand. This Agreement amends, restates, replaces and supersedes in its entirety that certain Amended and Restated Loan and Security Agreement dated June 17, 2021, as amended from time to time.

1. DEFINITIONS AND INTERPRETATIONS.

1.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below. Capitalized terms not defined herein shall have the meanings set forth in the Code, as defined below.

"Account" has the meaning set forth in Section 9102(a)(2) of the Code.

"Account Debtor" means a Person obligated on an Account, chattel paper or General Intangibles.

"Advance(s)" shall mean, individually and collectively, the Revolving Advances and the Term Loan Advances.

"Affiliate" means, with respect to any Person, a relative, partner, shareholder, director, officer, or employee of such Person, or any Parent or subsidiary of such Person, or any Person controlling, controlled by or under common control with such Person.

"Agreement" means this Loan and Security Agreement as amended, modified or supplemented from time to time. Each reference herein to "this Agreement," "this Loan Agreement" "herein," "hereunder," "hereof' or other like words shall include this Agreement, and any annex, exhibit or schedule attached hereto or referred to herein.

"Anti-Money Laundering Laws" shall mean the USA Patriot Act of 2001, the Bank Secrecy Act, as amended through the date hereof, Executive Order 1 3324 —Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as amended through the date hereof, and other federal laws and regulations and executive orders administered by OFAC which prohibit, among other things, the engagement in transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals (such individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanction and embargo programs), and such additional laws and programs administered by OFAC which prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on any of the OFAC lists.

"Assignment of Deposit" shall mean that certain that certain Security Agreement (Assignment of Deposit Account) dated June 17, 2021.

"Borrower's Operating Account" means Borrower's demand deposit account with Lender, into which substantially all of Borrower receipts from its operations are deposited and from which substantially all of Borrower disbursements for its operations are made.

"Borrowing Base" shall mean an amount equal to $5,000,000.00, plus eighty percent (80%) of the balance due on Eligible Accounts Receivable. After calculating the Borrowing Base as provided above, Lender may deduct such reserves as Lender may establish from time to time in its reasonable credit judgment, including, without limitation, reserves for rent at leased locations subject to statutory or contractual landlord's liens, inventory shrinkage, dilution, customs charges, warehousemen's or bailees' charges, and the amount of estimated maximum exposure, as determined by Lender from time to time, under any interest rate contracts which Borrower enters into with Lender (including interest rate swaps, caps, floors, options thereon, combinations thereof, or similar contracts).

"Borrowing Base Certificate" means a Borrowing Base Certificate substantially in the form of Exhibit "A" attached hereto.

"Borrowing Base Supporting Documentation" has the meaning set forth in Section 9.3(a) of this Agreement.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which California banks are authorized or required to close.

"Change of Control" shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) (other than the current holders of the ownership interests in Borrower) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, as a result of any single transaction, of fifty percent (50%) or more, of the total voting power of all classes of stock or other ownership interests then outstanding of any Borrower normally entitled to vote in the election of directors or analogous governing body.

"Closing Date" means the date that all conditions precedent under Section 6.1 of this Agreement are satisfied.

"Code" means the Uniform Commercial Code as adopted and in effect in the State of California, from time to time.

"Collateral" has the meaning set forth in Section 5.2 hereof.

"Current Liabilities" shall mean at any date the current liabilities of Borrower determined as of such date in accordance with GAAP.

"Debt Service Coverage Ratio" shall mean the ratio of (i) Borrower's EBITDA, divided by (ii) the aggregate of all interests and the scheduled payments of principal and interest payable by Borrower to Lender under the Note, and all other scheduled payments of principal and interest payable by Borrower to Lender under any other notes.

"Default" means any event which, with notice or passage of time or both, would constitute an Event of Default.

"Default Rate" shall have the meaning set forth in Section 3.2 hereof.

"Deposit Account" means any deposit account (as defined in the Code) now or hereafter maintained by or for the benefit of Borrower, and all amounts therein, whether or not restricted or designated for a particular purpose, that has been pledged as collateral for any Obligation under this Agreement.

"Dollars or $" means United States dollars.

"EBITDA" means net income before tax, plus interest expense (net of capitalized income expense), depreciation expense and amortization expense.

"Eligible Accounts Receivable" means Accounts arising in the ordinary course of Borrower's business from the sale of goods or rendition of services, which Lender, in its sole judgment exercised in good faith, shall deem eligible for borrowing, based on such considerations as Lender may from time to time deem appropriate. Eligible Accounts Receivable shall not include the following:

(a) Accounts with respect to which the Account Debtor is an employee, Affiliate, or agent of Borrower including, without limitation, SOE, Inc. and Suzhou Snail Digital Technology Co.;

(b) Accounts with respect to which goods are placed on (i) consignment, (ii) guaranteed sale, (iii) sale or return, (iv) sale on approval, (v) bill and hold, (vi) demonstration or promotion, (vii) credit memos or (viii) other terms by reason of which the payment by the Account Debtor may be conditional;

(c) [Reserved];

(d) Accounts with respect to which the Account Debtor is the United States or any department, agency, or instrumentality of the United States;

(e) Accounts with respect to which the Account Debtor is a creditor of Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to the Accounts;

(f) Accounts with respect to which the Account Debtor is subject to any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation proceeding, or becomes insolvent, or goes out of business, or has had a trustee or receiver appointed for any part of its property, has made an assignment for the benefit of creditors, or has failed generally to pay its debts (including its payroll) as such debts become due;

(g) Accounts the collection of which Lender, in its sole discretion, believes to be doubtful by reason of the Account Debtor's financial condition or which Lender, in its sole discretion, deems the creditworthiness or financial condition of the Account Debtor to be unsatisfactory;

(h) Accounts with respect to which the goods giving rise to such Account have not been shipped and billed to the Account Debtor, the services giving rise to such Account have not been performed and accepted by the Account Debtor, or the Account otherwise does not represent a final sale;

(i) Accounts designated by Borrower with the term, "unapplied credits" (i.e. payments received but not yet applied to a specific Account);

(j) Accounts which arise from the sale of goods which remain in the Borrower's possession or under the Borrower's control;

(k) Accounts which are evidenced by a promissory note or chattel paper;

(l) Accounts that represent progress payments or other advance billings that are due prior to the completion of performance by Borrower of the subject contract for goods or services;

(m) Accounts which have not been paid in full within one hundred twenty (120) days from the invoice date, or within sixty (60) days from the original due date thereof or within sixty (60) days from the original due date there remains a balance of more than fifty percent (50%) of the amount due.

(n) Accounts that do not arise from the sale of goods or performance of services by Borrower in the ordinary course of its business;

(o) Accounts that (i) are not owned by Borrower or (ii) are subject to any lien of any other person, other than Lender;

(p) That portion of the Accounts of any single Account Debtor which exceeds twenty percent (20%) of all of Borrower's Accounts, provided that such percentage shall be increased to one hundred percent (100%) for Valve, Microsoft and Sony;

(q) Accounts that the amount thereof is not yet represented by an invoice or bill issued in the name of the applicable Account Debtor;

(r) Accounts not covered by credit insurance acceptable to Lender naming Lender as loss payee;

(s) Contra-Accounts (that is, an Account payable to and receivable from the same payee-payor); and

(t) Cash-on-delivery Accounts.

"Environmental Laws" shall mean all federal, state and local environmental' land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and, the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

"Equipment" has the meaning set forth in Section 9102(a)(33) of the Code and includes, without limitation, all of Borrower's furniture, fixtures, trade fixtures, tenant improvements owned by Borrower, all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor statute, and any and all regulations thereunder.

"Event of Default" means any of the events set forth in Section 10.1 of this Agreement.

"Fees and Costs" has the meaning set forth in Section 11.12 of this Agreement.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied on a consistent basis, applied both to classification of items and amounts.

"General Intangibles" has the meaning set forth in Section 9102(a)(42) of the Code and shall include, without limitation, payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, drawings, blueprints, patents, patent applications, trademarks and the goodwill of the business symbolized thereby, names, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against Lender, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation, life insurance, key man insurance, credit insurance, liability insurance, property insurance and other insurance), tax refunds and claims, software, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables).

"Goods" has the meaning set forth in section 9102(a)(44) of the Code.

"Guarantor" means, individually and collectively, (i) Hai Shi, an individual, and (ii) Ying Zhou, an individual.

"Guaranty" means that certain agreement duly executed by Guarantor, unconditionally and irrevocably guaranteeing payment and performance of Borrower's obligations to Lender in connection with the Term Loan, as such agreement or agreements are originally executed and as such agreement or agreements may from time to time be reaffirmed, supplemented, modified or amended.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

"Hazardous Wastes" shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

"Indemnified Person" has the meaning set forth in Section 10.4(c) of this Agreement.

"Inventory" means all of Borrower's now owned and hereafter acquired goods, including software embedded in such goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease (including without limitation all raw materials, work in process, finished goods and goods in transit, and, including without limitation, all farm products), and all materials and supplies of every kind, nature and description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all warehouse receipts, documents of title and other documents representing any of the foregoing.

"Investment Property" has the meaning set forth in Section 9102(a)(49) of the Code.

"Loan" shall mean, individually and collectively, the Term Loan and Revolving Line of Credit.

"Loan Account" has the meaning set forth in Section 2.4.

"Loan Documents" means this Agreement and the Other Documents.

"Material Adverse Effect" means a material adverse effect on (i) the business, assets, condition (financial or otherwise) or results of operations of Borrower or any subsidiary of Borrower or Guarantor, (ii) the ability of Borrower or Guarantor to duly and punctually pay or perform its obligations under this Agreement (including, without limitation, repayment of the Obligations as they come due), (iii) the value of the Collateral, or Lender's liens on the Collateral or the privity of any such hen, or (iv) the validity or enforceability of this Agreement or any other agreement or document entered into by any party in connection herewith, or the practical realization of the benefits of Lender's rights or remedies.

"Material Litigation" shall have the meaning set forth in Section 7.10 hereof.

"Maximum Advance Amount" shall mean $9,000,000.00, subject to Section 2.1 hereof.

"Note" shall mean, individually and collectively, the Revolving Note and Term Loan Note.

"Obligations" means all present and future Advances, loans, overdrafts, debts, liabilities, obligations, including, without limitation, all obligations of Borrower under any guaranties, covenants, duties and indebtedness at any time owing by Borrower to Lender, evidenced by this Agreement or the Other Documents, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, trust receipt, loan, overdraft, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by Lender in Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorneys' fees (including attorneys' fees and expenses incurred in bankruptcy), expert witness fees and expenses, fees and expenses of consultants, audit fees, letter of credit fees, closing fees, facility fees, termination fees, and any other sums chargeable to Borrower under this Agreement or the Other Documents.

"OFAC" shall mean the United States Department of the Treasury, Office of Foreign Assets Control.

"OFAC Prohibited Person" shall mean a country, territory, individual or person (i) listed on, included within or associated with any of the countries, territories, individuals or entities referred to on The Office of Foreign Assets Control's List of Specially Designated Nationals and Blocked Persons or any other prohibited person lists maintained by governmental authorities, or otherwise included within or associated with any of the countries, territories, individuals or entities referred to in or prohibited by OFAC or any other Anti-Money Laundering Laws, or (ii) which is obligated or has any interest to pay, donate, transfer or otherwise assign any property, money, goods, services, or other benefits from the property directly or indirectly, to any countries, territories, individuals or entities on or associated with anyone on such list or in such laws.

"Official Body" means any government or political subdivision or any agency, authority, bureau, commission, court or tribunal whether foreign or domestic.

"Other Documents" shall mean the Note, the Guaranty, and all other agreements, instruments and documents now or hereafter executed by Borrower and delivered to Lender in respect of the transactions contemplated by this Agreement.

"Overadvance" has the meaning set forth in Section 4.1.

"Parent" means any Person holding a majority of the equity interest in a corporation or limited liability company.

"Permitted Liens" means all of the following:

(a) liens in favor of Lender;

(b) purchase money security interests in specific items of Equipment;

(c) leases of specific items of Equipment;

(d) liens for taxes not yet payable;

(e) security interests being terminated substantially concurrently with this Agreement; and

(f) liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent.

"Person" means any individual, sole proprietorship, general partnership, limited partnership, limited liability partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"Potential Default" means any event, act or condition which, with notice or lapse of time or both, would constitute an Event of Default.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as same may be amended from time to time.

"Receivables" means all of Borrower's now owned and hereafter acquired Accounts, letter of credit rights, license fees, contract rights, chattel paper (including tangible chattel paper, electronic chattel paper, and intangible chattel paper), instruments (including promissory notes), drafts, securities, documents, securities accounts, security entitlements, commodity contracts, commodity accounts, Investment Property, supporting obligations and all other forms of obligations at any time owing to Borrower, all guaranties and other security therefor, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

"Revolving Advance(s)" shall mean each advance, loan and financial accommodation from Lender to Borrower under the Revolving Line of Credit, whether now existing or hereafter arising and however evidenced.

"Revolving Line of Credit" shall mean the revolving credit facility described in Section 2.1 hereof.

"Revolving Note" shall mean that certain Amended and Restated Revolving Promissory dated June 17, 2021 in the principal amount of the Revolving Line of Credit executed by Borrower in favor of Lender.

"Revolving Maturity Date" shall mean December 31, 2023.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Subordinated Liabilities" means liabilities subordinated to the Borrower's obligations to Lender in a manner acceptable to Lender, in its sole discretion.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing (other than securities or interest having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"Supporting Obligations" has the meaning set forth in Section 9102(77) of the Code.

"Term Loan" shall mean the term loan described in Section 2.2 hereof.

"Term Loan Advance(s)" shall each advance, loan and financial accommodation from Lender to Borrower under the Term Loan, whether now existing or hereafter arising and however evidenced.

"Term Loan Note" shall mean that certain Promissory Note dated as of even date herewith in the principal amount of the Term Loan executed by Borrower in favor of Lender.

"Term Loan Maturity Date" means January 26, 2023.

"Toxic Substance" shall mean and include any material present on any facility of Borrower which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. "Toxic Substance" includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

1.2 Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with GMP. In addition, unless otherwise specified herein all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GMP. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

1.3 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and references to the singular include the plural; references to any gender include any other gender; the part includes the whole; the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or". The words, "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, subsection, clause, exhibit and schedule references are to this Agreement, unless otherwise specified. Any reference in this Agreement or any of the Other Documents to this Agreement or any of the Other Documents includes any and all permitted alterations, amendments, changes, extensions, modifications, renewals, or supplements thereto or thereof, as applicable.

1.4 Exhibits and Schedules. All of the exhibits and schedules attached hereto shall be deemed incorporated herein by reference.

1.5 No Presumption Against Any Party. Neither this Agreement, any of the Other Documents, any other documents, agreement, or instrument entered into in connection herewith, nor any uncertainty or ambiguity herein or therein shall be construed or resolved using any presumption against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Agreement, the Other Documents, and all other documents, instruments, and agreements entered into in connection herewith have been reviewed by each of the parties and by their respective counsel and shall be construed and interpreted according to the ordinary meanings of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

1.6 Independence of Provisions. All agreements and covenants hereunder, under the Other Documents and the other documents, instruments, and agreements entered into in connection herewith shall be given independent effect such that if a particular action or condition is prohibited by the terms of any such agreement or covenant, the fact that such action or condition would be permitted within the limitations of another agreement or covenant shall not be construed as allowing such action to be taken or condition to exist.

2. CREDIT FACILITIES.

2.1 Revolving Line of Credit.

(a) Subject to the terms and conditions contained herein, Lender will make Advances to Borrower from the Closing Date until the Revolving Maturity Date, which may be borrowed, repaid and reborrowed, in aggregate amounts outstanding at any one time equal to the lesser of:

(x) the sum of: (i) the Maximum Advance Amount, less (ii) the outstanding Advances; or

(y) an amount equal to the sum of: (i) the Borrowing Base, minus (ii) the outstanding Advances, minus such reserves as Lender may reasonably deem proper and appropriate from time to time (the "Revolving Line of Credit").

(b) Borrowing Base Calculations. The Borrowing Base shall be calculated by Lender upon receipt from Borrower of the Borrowing Base Certificate and all supporting documentation required under this Agreement pursuant to Section 9.3 below. Lender will provide a Borrowing Base calculation to Borrower setting forth its determination of the Borrowing Base, which calculation will be conclusive and binding in the absence of manifest error. The Borrowing Base as determined by Lender will become effective upon calculation by Lender and will remain in effect until a new Borrowing Base is calculated by Lender in accordance with this Agreement.

(c) Advance Request Procedures. Borrower shall notify Lender prior to 10:00 a.m., Los Angeles time, on a Business Day, of Borrower's request for a Revolving Advance that day. Each such notice shall specify the date such Advance is to be made, the amount of such Revolving Advance, and shall comply with such other requirements as Lender determines are reasonable or desirable in connection therewith. Any written request for a Revolving Advance received by Lender after 10:00 a.m. (Los Angeles time) shall not be considered by Lender until the next Business Day. Should any amount be required to be paid as interest hereunder, or as fees or other charges under this Agreement or any Other Agreement, or with respect to any Obligations, the same shall be deemed a request for an Advance as of the date such payment is due in the amount required to pay in full such interest, fees, charges or Obligation under this Agreement or any Other Agreement, and such request shall be irrevocable.

(d) Note. Revolving Advances shall be evidenced by the Revolving Note issued by Borrower to Lender.

2.2 Term Loan.

(a) Subject to the terms and conditions of this Agreement, Lender shall make a term loan to Borrower in the principal sum of Ten Million and No/100 Dollars ($10,000,000.00) (the "Term Loan"). The Term Loan shall be disbursed to Borrower in a single Term Loan Advance.

(b) Term Note. The Term Loan Advance shall be evidenced by the Term Loan Note issued by Borrower to Lender.

(c) Interest and principal payments under the Term Loan shall be due and payable to Lender pursuant to the provisions of the Term Loan Note.

2.3 Use of Proceeds.

(a) All Advances made to or for the benefit of Borrower shall be used solely for working capital and general corporate purposes. Lender shall have no obligation to monitor or verify the use or application of any Advance disbursed by Lender.

(b) Borrower shall not, directly or indirectly, use all or any part of any Advance for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (the "Board of Governors") or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock or for any purpose which violates or is inconsistent with Regulation X of the Board of Governors, unless such use has been expressly approved in writing by Lender, in its discretion.

2.4 Loan Account/Deposit Account. Lender shall maintain on its books a record of account ("Loan Account") in which Lender shall make entries for each Advance and such other debits and credits as shall be appropriate in connection with the credit facility set forth in this Agreement; provided, however, the failure by Lender to so record each Advance shall not adversely affect Lender. Each Advance made by Lender shall be deposited in Borrower's Operating Account, as applicable.

2.5 Manner of Payment.

(a) Except as expressly provided herein, all payments (including prepayments) to be made by Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Lender, in each case on or prior to 12:00 p.m., Los Angeles time, in Dollars and in immediately available funds.

(b) Notwithstanding anything to the contrary contained in herein, commencing with the first Business Day following the Closing Date, each borrowing of an Advance shall be advanced by Lender and each payment by Borrower on account of an Advance shall be applied first to those Advances advanced by Lender.

3. INTEREST.

3.1 Interest Rate. The Loan shall bear interest at the rate as set forth in the Note (the "Note Rate").

3.2 Default Interest. Upon the occurrence and during the continuance of an Event of Default, Borrower shall pay interest on the unpaid principal amount of each Advance or other Obligation owing to Lender and on the unpaid amount of all interest, fees and other amounts payable hereunder that is not paid when due, payable on demand by Lender, at a rate per annum (the "Default Rate") equal at all times to five percent (5%) per annum above the Note Rate.

4. PAYMENT OF OBLIGATIONS.

4.1 Overadvance on Revolving Line of Credit. If, at any time and for any reason, the aggregate principal amount of the outstanding Revolving Advances exceeds the lesser of (i) the Maximum Advance Amount or (ii) the Borrowing Base (an "Overadvance"), Borrower shall immediately pay Lender, in cash, the amount of such Overadvance. Lender may apply such payments to the outstanding Advances or Obligations in such order and manner as Lender, in its sole and absolute discretion, may determine.

4.2 Maturity Date. On the Revolving Maturity Date, Borrower shall pay and perform in full all outstanding Revolving Advances and all other Obligations arising thereunder, whether for principal, interest, costs, fees or otherwise. On the Term Loan Maturity Date, Borrower shall pay and perform in full the outstanding principal amount of the Term Loan and all other Obligations arising thereunder, whether for principal, interest, costs, fees or otherwise.

4.3 Manner of Payment. Principal and interest payments due under the Note and all other Obligations shall be withdrawn from Borrower's Operating Account with Lender, or such other account with Lender as designated in writing by Borrower. In the event that Borrower's Operating Account with Lender contains insufficient funds to make any payments under this Agreement, Borrower shall remit such payment from Borrower's own funds.

4.4 Late Charge. If any payment due hereunder is not received or made within ten (10) days of the due date or there are insufficient funds in the Operating Account on the date Lender enters any debit authorized by this Agreement, without limitation, Lender's other remedies in such an event, Lender shall apply a late charge in an amount equal to five percent (5%) of the unpaid portion of the scheduled payment or $35.00, whichever is less.

4.5 Loan Fees. On the Closing Date, Borrower agrees to pay to Lender, from Borrower's own funds, for the benefit of Lender, a loan fee in the amount of $15,000.00 for the making of the Term Loan. The loan fee shall be deemed fully earned when paid, and therefore, is nonrefundable.

5. SECURITY INTEREST.

5.1 Grant of Interest. To secure the payment and performance of all of the Obligations as and when due, Borrower hereby grants to Lender a first priority security interest in all Collateral and those evidenced by the Assignment of Deposit Account.

5.2 Collateral. The Collateral shall constitute all of Borrower's interest in all of the following assets whether now owned or hereafter acquired, and wherever located:

(a) All Accounts contract rights, chattel paper, instruments, deposit accounts, letter of credit rights, payment intangibles and General Intangibles, including, without limitation, all of Borrower's cash, money, warehouse receipts, bills of lading, purchase orders, letters of credit, letter of credit rights, any client lists, any and all trade secrets, receipts of any kind or nature, documents, contracts and contract rights, invoices, licenses, insurance, and other tangible or intangible property of Borrower resulting from the sale or disposition of all of the foregoing, and all other personal property (including, without limitation, all of Borrower's money, all personal property now or at any time in the future in Lender's possession and credit balances); and all returned or repossessed goods which, on sale or lease, resulted in an account or chattel paper.

(b) All Inventory, including all materials, work in process and finished goods.

(c) All Equipment, including all machinery, furniture, and fixtures of every type now owned or hereafter acquired by Borrower.

(d) All of Borrower's deposit accounts with Lender. The Collateral shall include any renewals or rollovers of the deposit accounts, any successor accounts, and any general intangibles and choses in action arising therefrom or related thereto.

(e) All instruments, notes, chattel paper, documents, certificates of deposit, securities and investment property of every type. The Collateral shall include all liens, security agreements, leases and other contracts securing or otherwise relating to the foregoing.

(f) (i) All patents, and all unpatented or unpatentable inventions; (ii) all trademarks, service marks, and trade names; (iii) all copyrights and literary rights; (iv) all computer software programs; (v) all mask works of semiconductor chip products; (vi) all trade secrets, proprietary information, customer lists, manufacturing, engineering and production plans, drawings, specifications, processes and systems. The Collateral shall include all good will connected with or symbolized by any of such general intangibles; all contract rights, documents, applications, licenses, materials and other matters related to such general intangibles; all tangible property embodying or incorporating any such general intangibles; and all chattel paper and instruments relating to such general intangibles.

(g) All negotiable and nonnegotiable documents of title covering any Collateral.

(h) All accessions, attachments and other additions to the Collateral , and all tools, parts and equipment used in connection with the Collateral.

(i) All Supporting Obligations related to any of the foregoing;

(j) All substitutes or replacements for any Collateral, all cash or non-cash proceeds, product, rents and profits of any Collateral, all income, benefits and property receivable on account of the Collateral, all rights under warranties and insurance contracts, letters of credit, guaranties or other supporting obligations covering the Collateral, and any causes of action relating to the Collateral.

(k) All books and records related to any of the foregoing including but not limited to any computer-readable memory and any computer hardware or software necessary to process such memory.

(l) (all of the foregoing, together with all other property in which Lender may now or in the future be granted a lien or security interest, is referred to herein, collectively, as the "Collateral"). Collateral shall not include any asset which on the Borrower's books and records Borrower is holding in trust for third persons.

5.3 Perfection.

(a) Lender may file or amend one or more financing statements disclosing Lender's security interest in the Collateral. Borrower agrees that a photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. Borrower approves, authorizes and ratifies any filings or recordings made by or on behalf of Lender in connection with the perfection and continuation of Lender's security interest with respect to the Collateral.

(b) Lender may file UCC-1 financing statements against specific items of Equipment, (or amend existing UCC-1 financing statements) in Lender's sole discretion, and Borrower agrees to furnish to Lender sufficient identifying information, such as make, model and serial numbers, as Lender may request. Lender may also file a fixture filing in the real property records of the applicable county in California, to perfect its security interest in such items of Equipment as are or become fixtures.

(c) Upon demand, Borrower will deliver to Lender such other items of Collateral or will execute such documents as are appropriate to grant Lender possession or control of such Collateral as necessary to further perfect Lender's security interest therein.

6. CONDITIONS PRECEDENT.

6.1 Conditions to Initial Advance. The Loan will close subject to each, every and all of the following conditions having occurred to the satisfaction of Lender:

(a) Accuracy of Representations and Warranties; No .Default. The representations and warranties contained in Sections 7 and 8 below shall have been true and correct when made and shall be true and correct on and as of the Closing Date; and on the Closing Date, no Event of Default and no Potential Default shall have occurred and be continuing.

(b) Documents and Agreements. Borrower shall deliver to Lender the following documents, in form and substance satisfactory to Lender in its sole and absolute discretion:

(i) An executed original of this Agreement;

(ii) The Note;

(iii) A Borrowing Base Certificate, showing borrowing availability pursuant to the terms hereof;

(iv) A Guaranty from each Guarantor;

(v) Such other documents, instruments and information as Lender shall require.

(c) Priority of Lender's Liens. Lender shall have received the results of "of record" searches satisfactory to Lender in its sole and absolute discretion, reflecting its Uniform Commercial Code filing against Borrower indicating that Lender has a perfected, first priority lien in and upon all of the Collateral, subject only to such Permitted Liens which are also permitted to be senior to the lien of Lender.

(d) Insurance. Lender shall have received copies of the insurance binders or certificates evidencing Borrower's compliance with Section 9.2 of this Agreement, including lender's loss payee endorsements.

(e) Organizational Documents. Lender shall have received copies of Borrower's articles of incorporation or articles of organization, as applicable, and all amendments thereto, and a certificate of good standing (each certified by the California Secretary of State, and dated a recent date prior to the Closing Date), and Lender shall have received Certificates of Foreign Qualification for Borrower from the Secretary of State of each state wherein the failure to be so qualified could have a Material Adverse Effect.

(f) Certified Resolutions/Authorizations. Lender shall have received (i) copies of Borrower's by-laws or operating agreement, as applicable, and all amendments thereto, and (ii) copies of the resolutions of the board of directors of Borrower or authorization of the managers of Borrower, as applicable, authorizing the execution and delivery of this Agreement, and the other documents contemplated hereby, and authorizing the transactions contemplated hereunder and thereunder, and authorizing specific officers or managers of Borrower to execute the same on behalf of Borrower certified by the Secretary or other acceptable officer, or the manager, as applicable, of Borrower as of the Closing Date.

(g) Landlord Waivers. If required by Lender, Lender shall have received duly executed landlord waivers and access agreements, in form and substance satisfactory to Lender, in Lender's sole and absolute discretion, and, when deemed appropriate by Lender, in form for recording in the appropriate recording office, with respect to all leased locations where Borrower maintains any Collateral.

(h) Third Party Custody. In the event that any Collateral is in the possession of a third party, Borrower shall join with Lender in notifying such third party of Lender's security interest and obtaining an acknowledgement from such third party that it is holding such Collateral for the benefit of Lender.

(i) Permits and Approvals. Verification and approval of all permits, approvals and authorizations required to pledge the Collateral to Lender.

(j) Fees. Borrower shall have paid all Fees and Costs payable by Borrower hereunder, including the Loan Fee due on the Closing Date, legal fees and costs incurred by Lender in connection with the preparation, negotiation and closing of this Agreement.

(k) Field Audit. If required by Lender, review and approval of field audit of Borrower verifying methodology and valuation of accounts receivable and inventory, performed by an agent designated by Lender, all to the satisfaction of Lender in its sole opinion and judgment.

(l) Borrower's Financial Statements. Review and approval of Borrower's latest year to date month-end internally prepared consolidated financial statements and tax returns (with all forms K-1 attached), together with the similar dated aged accounts receivable and inventory reports, and any other financial statements and reports as required by Lender.

(m) Other Documents and Agreements. Lender shall have received such other agreements, instruments and documents as Lender may require in connection with the transactions contemplated hereby, all in form and substance satisfactory to Lender in Lender's sole and absolute discretion, and in form for filing in the appropriate filing office, including, but not limited to, those documents listed in Section 6.1(c).

6.2 Conditions to all Advances. The obligation of Lender to make any Advance to Borrower (including the initial Advance) is further subject to and contingent upon the fulfillment of each of the following conditions to the satisfaction of Lender:

(a) The fact that, immediately before and after the making of any Advance, no Event of Default or Default shall have occurred or be continuing; and

(b) The fact that the representations and warranties of Borrower contained in this Agreement shall be true and correct on and as of the date of such borrowing.

7. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER. In order to induce Lender to enter into this Agreement and to make the Advances, Borrower represents and warrants to Lender as follows, and Borrower covenants that the following representations will continue to be true, and that Borrower will at all times comply with all of the following covenants:

7.1 State of Organization, Existence and Authority.

(a) Borrower is and will continue to be, duly organized, validly existing and in good standing under the laws of the State of California. Borrower has all requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted and as presently planned to be conducted. Borrower is and will continue to be qualified and licensed to do business in California and all jurisdictions in which any failure to do so would have a Material Adverse Effect.

(b) Borrower is not in violation of any term of any of its organizational documents, agreement or instrument to which Borrower is a party or by which it or any of its properties (now or hereafter acquired) may be bound (except for violations which in the aggregate do not have a Material Adverse Effect).

(c) The execution, delivery and performance by Borrower of this Agreement, and all other documents contemplated hereby, and the creation of the lien granted under this Agreement: (i) have been duly and validly authorized, (ii) create legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms (except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally), (iii) do not violate Borrower's articles or certificate of incorporation, or Borrower's by-laws, or any law which is binding upon Borrower or its property, (iv) do not constitute a breach of, or grounds for acceleration of, any material indebtedness or obligation under any material agreement or instrument which is binding upon Borrower or its property and (v) do not require any consent, approval, license exemption or other action by any Official Body or any other person or entity except such as have already been given or shall be obtained on or before the Closing Date.

7.2 Name; Trade Names and Styles. The name of Borrower set forth in the heading to this Agreement is its correct name. All prior names of Borrower and all of Borrower's present and prior trade names are listed on Exhibit "B" attached hereto. Borrower shall give Lender thirty (30) days' prior written notice before changing its name or doing business under any other trade name. Borrower has complied, and will in the future comply, with all laws relating to the conduct of business under a fictitious business name.

7.3 Place of Business; Location of Collateral. Borrower's address set forth in Section 11.4 hereof is the address and location of Borrower's chief executive office. In addition, Borrower has places of business and tangible Collateral located only at the locations set forth on Exhibit "C" attached hereto. Borrower will give Lender at least thirty (30) days' prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Collateral to a location other than Borrower's address set forth in Section 11.4 or one of the locations set forth on Exhibit C" hereto.

7.4 Title to Collateral; Permitted Liens. Borrower is now, and will at all times in the future, be the sole owner of all the Collateral. Borrower has rights in and the power to transfer the Collateral. The Collateral is now, and will remain, free and clear of any and all liens, charges, security interests, encumbrances and adverse claims, except for Permitted Liens. Lender has now, and will continue to have, a first-priority perfected and enforceable security interest in all of the Collateral, subject only to the Permitted Liens which are also permitted to be senior to the lien of Lender, and Borrower will at all times defend Lender and the Collateral against all claims of others. Borrower is not and will not become a lessee under any real property lease which does, or will, prohibit, restrain, impair Borrower's right to remove any Collateral from the leased premises. Borrower will keep in full force and effect, and will comply with all the terms of, any lease of real property where any of the Collateral now or in the future may be located.

7.5 Maintenance of Collateral. Borrower will maintain the Collateral consisting of Equipment in good working condition, and Borrower will not use the Collateral for any unlawful purpose. Borrower will immediately advise Lender in writing of any material loss or damage to the Collateral.

7.6 Books and Records. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with GAAP.

7.7 Financial Condition, Statements and Reports. All financial statements now or in the future delivered to Lender have been, and will be, prepared in conformity with GAAP (except, in the case of unaudited financial statements, for the absence of footnotes and subject to normal year-end adjustments) and now and in the future will fairly reflect the financial condition of Borrower, at the times and for the periods therein stated. Between the last date covered by any such statement provided to Lender and the date hereof, there has been no Material Adverse Effect. Borrower is now and will continue to be Solvent.

7.8 Tax Returns and Payments; Pension Contributions. Borrower has timely filed, and will timely file, all tax returns and reports required by foreign, federal, state and local law; and Borrower has timely paid, and will timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions now or in the future owed by Borrower. As of the date hereof, Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. To the best of Borrower's knowledge, Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms; and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

7.9 Compliance with Law. Borrower has complied, and will comply, in all material respects, with all provisions of all material foreign, federal, state and local laws and regulations relating to Borrower, including, but not limited to, the Fair Labor Standards Act, and those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, and environmental matters.

7.10 Litigation. There is no claim, suit, litigation, proceeding or investigation, pending, or to the best of Borrower's knowledge, threatened by or against or affecting Borrower in any court or before any governmental agency (or any basis therefor known to Borrower) which if adversely determined against Borrower would result, either separately or in the aggregate, in a Material Adverse Effect (collectively, the "Material Litigation"). Borrower will promptly inform Lender in writing of any Material Litigation.

7.11 No Default. No event has occurred and is continuing and no condition exists which constitutes an Event of Default or Potential Default.

7.12 No Advice. Borrower is not relying on Lender, Lender's agents, or Lender's consultants or attorneys as to the legal sufficiency, legal effect or tax consequences of this Agreement or the acquisition of assets relating hereto.

7.13 Continuing Warranties. Borrower's representations and warranties set forth in this Agreement shall be true and correct at the time of execution of this Agreement and as of the Closing Date and shall survive the Closing Date and shall remain true and correct as of the date given.

8. RECEIVABLES / ACCOUNTS.

8.1 Representations Relating to Documents and Legal Compliance. Borrower represents and warrants to Lender as follows:

(a) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Accounts are and shall be true and correct in all material respects and all such invoices, instruments and other documents and all of Borrower's books and records are and shall be genuine and in all respects what they purport to be.

(b) All sales and other transactions underlying or giving rise to each Account shall fully comply with all applicable laws and governmental rules and regulations.

(c) All documents, instruments, and agreements relating to all Accounts are and shall be legally enforceable in accordance with their terms.

8.2 Account Debtor Notifications. Borrower agrees and understands that this Loan shall be on a notification basis pursuant to which Lender shall directly collect and receive all proceeds and payments from the Accounts in which Lender has a security interest. In order to facilitate the foregoing, Borrower agrees to deliver to Lender, upon demand, any and all of Borrower's records, ledger sheets, payment cards, and other documentation, in the form requested by Lender, with regard to the Accounts. Borrower further agrees that Lender shall have the right to notify each Account Debtor, pay such proceeds and payments directly to Lender, and to do any and all other things as Lender may deem to be necessary and appropriate, within its sole discretion, to carry out the terms and intent of this Agreement. Lender shall have the further right, where appropriate and within Lender's sole discretion, to file suit, either in its own name or in the name of Borrower, to collect any and all such Accounts. Borrower further agrees that Lender may take such other actions, either in Borrower's name or Lender's name, as Lender may deem appropriate and within its sole judgment, with regard to collection and payment of the Accounts, without affecting the liability of Borrower under this Agreement or on the Indebtedness.

8.3 Verification. Lender may conduct monthly verifications of the outstanding balances of the account debtors to ensure accuracy of the aging and validity of the balances or the Collateral. Lender shall conduct verification requests from balances based on the most recent reporting period account receivables aging report. Any discrepancy found in such verification shall be treated as an ineligible item for the purpose of calculating the borrowing base unless Lender decides otherwise in its sole discretion.

8.4 Lock Box. Borrower agrees that Lender may at any time require Borrower to institute procedures whereby the payments and other proceeds of the Accounts shall be paid by the Account Debtors under a remittance account or lock box arrangement with Lender, or Lender's agent, or with one or more financial institutions designated by Lender. Borrower further agrees that, if no Event of Default exists under this Agreement, any and all of such funds received under such a remittance account or lock box arrangement shall, at Lender's sole election and discretion, either be (1) paid or turned over to Borrower; (2) deposited into one or more accounts for the benefit of Borrower (which deposit accounts shall be subject to a security assignment in favor of Lender); (3) deposited into one or more accounts for the joint benefit of Borrower and Lender (which deposit accounts shall likewise be subject to a security assignment in favor of Lender; (4) paid or turned over to Lender to be applied to the Indebtedness in such order and priority as Lender may determine within its sole discretion; or (5) any combination of the foregoing as Lender shall determine from time to time. Borrower further agrees that, should one or more Events of Default exist, any and all funds received under such a remittance account or lock box arrangement shall be paid or turned over to Lender to be applied to the Indebtedness, again in such order and priority as Lender may determine within its sole discretion.

9. ADDITIONAL COVENANTS OF THE BORROWER.

9.1 Financial and Other Covenants. Borrower shall at all times comply with the following covenants:

(a) Operating Account. Borrower agrees to maintain Borrower's Operating Account with Lender or any banking affiliate of Lender and keep such account at all times in good standing If Borrower does not maintain a separate operating account for its operations, but rather its operations are primarily administered through an operating account of Borrower's parent or affiliate, then Borrower agrees to cause such parent or affiliate to maintain its primary operating account with Lender or any banking affiliate of Lender. Borrower shall also provide specific authorization to Lender to debit Borrower's Operating Account for payments and fees due in connection with documentary credit financings, collections, loans and advances, if applicable, as they become due and payable.

(b) Minimum Debt Service Coverage Ratio. Borrower shall maintain a minimum Debt Service Coverage Ratio of at least 1.50 to 1.00, which shall be measured quarterly, beginning with the calendar quarter ending March 31, 2022.

9.2 Insurance. Borrower shall, at all times, insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to Lender, in such form and amounts as Lender may reasonably require (including, without limitation, credit insurance), and Borrower shall provide evidence of such insurance to Lender, so that Lender is satisfied that such insurance is, at all times, in full force and effect. All liability insurance policies of Borrower with respect to the Collateral shall name Lender as an additional insured, and all property, casualty and related insurance policies of Borrower with respect to the Collateral shall name Lender as a loss payee thereon and Borrower shall cause the issuance of a lender's loss payee endorsement in form reasonably acceptable to Lender. Upon receipt of the proceeds of any such insurance, Lender, at its sole option, either (i) shall apply such proceeds to the prepayment of the Obligations in such order or manner as Lender may elect, or (ii) shall disburse such proceeds to Borrower for application to the cost of repairs, replacements, or restorations. All repairs, replacements or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction. Lender may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, Lender may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall give Lender no less than thirty (30) days written notice of any cancellation of any insurance required hereunder and shall promptly forward any Notice of Cancellation it receives from any of its insurers.

9.3 Reports. Borrower, at its expense, shall provide Lender (or cause Guarantor to provide to Lender) with the written reports set forth below, (all in form, substance and detail satisfactory to Lender) by the dates specified:

(a) As soon as available but in no event later than forty-five (45) days following the end of each calendar quarter, commencing with the calendar month ending January 31, 2022, Borrower shall deliver to Lender (i) an accounts receivable aging report as of the last day of the prior calendar month, and (ii) an accounts payable aging report as of the last day of the prior calendar month, accompanied by any and all supporting documentation requested by Lender in its sole and absolute discretion, duly certified by Borrower's authorized signatory.

(b) As soon as available but in no event later than sixty (60) days following the end of each calendar quarter, commencing with the calendar quarter ending December 31, 2021, Borrower shall deliver to Lender company prepared consolidated and consolidating quarterly financial statements of Borrower.

(c) As soon as available but in no event later than forty-five (45) days following the end of each calendar quarter, commencing with the calendar quarter ending June 30, 2021, Borrower shall deliver to Lender its Borrowing Base Certificate.

(d) As soon as available but in no event later than one hundred fifty (150) days following the end of Borrower's fiscal year, a detailed customer address listing report for that fiscal year, including the customer's name, address, telephone number and such other information required by Lender.

(e) As soon as available, and in no event later than one hundred fifty (150) days after the end of Borrower's fiscal year, commencing with the fiscal year ending December 31, 2021, Borrower shall deliver to Lender annual consolidated financial statements of Borrower audited by an independent certified public accountant acceptable to Lender.

(f) Commencing with the 2020 tax year, as soon as available, and in no event later than 30 days after filing, Borrower shall deliver to Lender true and correct copies of Borrower's Federal income tax returns (including all schedules and attachments) of Borrower (and copies of any filing extensions) prepared by an independent certified public accountant acceptable to Lender.

(g) No later than forty-five (45) calendar days following the end of each period, Borrower shall deliver to Lender (i) quarterly royalty reports from each of Microsoft, Sony and Valve, beginning with the calendar quarter ending June 30, 2021, and (ii) If required by Bank, within twenty (20) days of Bank's request, Borrower shall provide monthly bank statements describing any and all royalty payments from Microsoft and Sony for the prior time period. The royalty reports submitted to Lender shall contain supporting bank statements.

(h) Borrower shall, during normal business hours, from time to time upon two (2) Business Days' prior notice as frequently as Lender reasonably determines to be appropriate, but in no event less than once each year: (a) provide Lender and its officers, employees and agents access to its properties, facilities, advisors, officers and employees of Borrower and to the Collateral of Borrower, and (b) permit Lender and any of its officers, employees and agents, to inspect, audit and make extracts from Borrower's books and records. Borrower shall, during normal business hours, from time to time upon two (2) Business Days' prior notice permit Lender and its officers, employees and agents, to inspect, review, evaluate and make test verifications and counts for the Accounts, Inventory and other Collateral of Borrower. If an Event of Default has occurred and is continuing, Borrower shall provide such access to Lender at all times and without advance notice. Furthermore, so long as any Event of Default has occurred and is continuing, Borrower shall provide Lender with access to each of its suppliers and customers. Borrower shall make available to Lender and its counsel reasonably promptly originals or copies of all books and records that Lender may reasonably request. Borrower shall delivery any document or instrument necessary for Lender as it may from time to time reasonably request, to obtain records from any service bureau or other Person that maintains records for Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by Borrower. Lender will give Borrower at least two (2) days' prior written notice of regularly scheduled audits.

(i) Promptly upon Lender's request, such other books, records, statements, lists of property and accounts, budgets, forecasts or reports as to Borrower as Lender may reasonably request.

9.4 Information.

(a) Borrower shall also furnish, or cause to be furnished, to Lender such additional information as Lender may from time to time reasonably request concerning Borrower's business, and/or financial condition, or any item of Collateral.

(b) Promptly upon Borrower becoming aware of any Event of Default or Potential Default, Borrower shall give Lender notice thereof, together with a written statement setting forth the nature thereof and the steps which Borrower has taken or is taking to cure the same.

(c) Promptly upon Borrower becoming aware thereof, Borrower shall give Lender written notice of: (i) any Material Adverse Effect and (ii) the commencement or existence of any proceeding by or before any Official Body against or affecting Borrower which is reasonably likely to be adversely determined and, if adversely decided, would have a Material Adverse Effect.

9.5 Access to Books and Records and Collateral.

(a) Borrower agrees to reimburse Lender immediately upon demand for all fees and out-of-pocket expenses for field exams and audits incurred as the result of the occurrence of an Event of Default which is continuing.

(b) Borrower will not enter into any agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than the location identified in Section 11.4 hereof without first notifying Lender of the same and obtaining the written agreement from such accounting firm, service bureau or other third party to give Lender the same rights with respect to access to books and records and related rights as Lender has under this Agreement.

9.6 Negative Covenants. Borrower shall not, without Lender's prior written consent, do any of the following:

(a) create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, guaranties, leasing, loans or advances, whether secured or unsecured, matured or un-matured, liquidated or unliquidated, direct or contingent, joint or several, except the liabilities of Borrower to Lender, and any other liabilities of Borrower existing as of, and disclosed to Lender prior to, the date of this Agreement;

(b) loan, invest in, or advance money or assets to any other person, enterprise or entity other than any loan, investment or advance to Borrower's affiliates and subsidiaries;

(c) purchase, create or acquire any interest in any other enterprise or entity other than any purchase, creation or acquisition of interests in Borrower's affiliates and subsidiaries;

(d) incur any obligation as surety or guarantor other than in the ordinary course of business;

(e) use any of the proceeds extended pursuant to this Agreement except for the purposes stated in this Agreement and related documents;

(f) declare or pay any dividends or other distributions with respect to, purchase, redeem, or otherwise acquire for value any of its outstanding stock, partnership interests or membership interests or return any capital of its shareholders, partners, members or managers without Lender's prior written consent;

(g) merge or consolidate with another entity;

(h) make any substantial change in the nature of Borrower's business as conducted as of the date hereof;

(i) acquire all or substantially all of the assets of any other entity;

(j) sell, transfer, assign, lease, license, or dispose of, all or a substantial or material portion of Borrower's assets, except in the ordinary course of its business;

(k) mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets owned as of the date of this Agreement or hereafter acquired, or accelerate payment on any existing debt, except any of the foregoing in favor of Lender or which is existing as of, and disclosed to Lender in writing prior to, the date of this Agreement;

(l) make any change in Borrower's capital structure which would have a Material Adverse Effect;

(m) dissolve or elect to dissolve;

(n) change the state of its incorporation;

(o) change its legal name; or

(p) use the loan proceeds for any purpose other than as set forth in this Agreement.

(q) Transactions permitted by the foregoing provisions of this Section are only permitted if no Potential Default or Event of Default is continuing or would occur as a result of such transaction.

9.7 Litigation Cooperation. Borrower shall promptly inform Lender in writing of any proceedings (whether or not purportedly on behalf of Borrower) against Borrower involving an amount in excess of $150,000.00. Should any third-party suit or proceeding be instituted by or against Lender with respect to any Collateral or relating to Borrower, Borrower shall, without expense to Lender, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Lender may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

9.8 Further Assurances. Borrower agrees, at its expense, on request by Lender, to execute all documents and take all actions, as Lender, may deem reasonably necessary or useful in order to perfect and maintain Lender's perfected security interest in the Collateral, and in order to fully consummate the transactions contemplated by this Agreement.

9.9 Operating Account. Until such time as all of Borrower's Advances have been paid in full and this Agreement has been terminated, Borrower agrees to maintain Borrower's Operating Account at Lender. Borrower authorizes Lender to automatically deduct all payments required to be made by this Agreement from Borrower's Operating Account.

9.10 Field Audits. Borrower shall permit Lender, on ten (10) Business Days' prior notice, to conduct a field audit of Borrower verifying Borrower's methodology and valuation of the Accounts, Inventory and other Collateral of Borrower, performed by an agent designated by Lender, all to the satisfaction of Lender in its sole opinion and judgment. In addition, Borrower shall, during normal business hours, from time to time upon ten (10) Business Days prior notice: (a) provide Lender and any of its officers, employees and agents access to its properties, facilities, advisors, officers and employees of Borrower and to the Collateral of Borrower, and (b) permit Lender and any of its officers, employees and agents to inspect, audit and make extracts from Borrower's books and records. Borrower shall, during normal business hours, from time to time upon one (1) Business Days prior notice permit Lender, and its officers, employees and agents, to inspect, review, evaluate and make test verifications and counts for the Accounts, Inventory and other Collateral of Borrower. If an Event of Default has occurred and is continuing, Borrower shall, at Borrower's expense, provide such access to Lender at all times and without advance notice. Furthermore, so long as any Event of Default has occurred and is continuing, Borrower shall provide Lender with access to each of its suppliers and customers. Borrower shall reasonably promptly make available to Lender and its counsel originals or copies of all books and records that Lender may reasonably request. Borrower shall deliver any document or instrument necessary for Lender as it may from time to time reasonably request, to obtain records from any service bureau or other Person that maintains records for Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by Borrower. Lender will give Borrower at least ten (10) Business Days' prior written notice of regularly scheduled field audits. Borrower shall reimburse Lender for any cost incurred for such field audits. Unless an Event of Default has occurred, Borrower shall be responsible for the cost of any such audit one (1) time each year and, in no event, at a cost not to exceed $300.00. Borrower hereby authorized Lender to debit (without offset) any such cost from Borrower's primary operating account with Lender. In the event that Lender deems the results of any such audit to be unsatisfactory, in Lender's sole opinion and judgment, then in such event, Lender may declare an Event of Default and terminate the Revolving Line of Credit.

9.11 Terrorism and Anti-Money Laundering. Borrower warrants and agrees as follows:

(a) As of the date hereof and throughout the term of the Loan: (i) Borrower; (ii) any Person controlling or controlled by Borrower; (iii) if Borrower is a privately held entity, any Person having a beneficial interest in Borrower; or (iv) any Person for whom Borrower is acting as agent or nominee in connection with this transaction, is not an OFAC Prohibited Person.

(b) To comply with applicable U.S. Anti-Money Laundering Laws and regulations, all payments by Borrower to Lender or from Lender to Borrower will only be made in Borrower's name and to and from a bank account of a bank based or incorporated in or formed under the laws of the United States or a bank that is not a "foreign shell bank" within the meaning of the U.S. Bank Secrecy Act (31 U.S.C. § 5311 et seq.), as amended, and the regulations promulgated thereunder by the U.S. Department of the Treasury, as such regulations may be amended from time to time.

(c) To provide Lender at any time and from time to time during the term of the Loan with such information as Lender determines to be necessary or appropriate to comply with the Anti-Money Laundering Laws and regulations of any applicable jurisdiction, or to respond to requests for information concerning the identity of Borrower, any Person controlling or controlled by Borrower or any Person having a beneficial interest in Borrower, from any governmental authority, self-regulatory organization or financial institution in connection with its anti-money laundering compliance procedures, or to update such information.

(d) The representations and warranties set forth in this Section 9.11 shall be deemed repeated and reaffirmed by Borrower as of each date that Borrower makes a payment to Lender under this Agreement and the Other Documents or receives any payment from Lender. Borrower agrees promptly to notify Lender in writing should Borrower become aware of any change in the information set forth in these representations.

10. EVENTS OF DEFAULT AND REMEDIES.

10.1 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay any amounts owed under this Agreement or any interest thereon or any other monetary Obligation; or

(b) Borrower shall fail to provide to Lender any notices or financial reports specified in this Agreement; or

(c) Borrower shall fail to perform any other non-monetary Obligation; or

(d) Any warranty, representation, statement, report or certificate made or delivered to Lender by Borrower or any of Borrower's officers, employees or agents, now or in the future, shall be untrue or misleading and results in a Material Adverse Effect; or

(e) Borrower shall fail to give Lender access to its books and records or the Collateral as provided herein, or shall breach any negative covenant set forth in Section 9.6 above; or

(f) Borrower shall fail to comply with the financial covenants (if any) set forth in Section 9.1 or shall fail to perform any other non-monetary Obligation which by its nature cannot be cured; or

(g) Any levy, assessment, attachment, seizure, lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral; or

(h) Any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or

(i) Borrower breaches any material contract, lease or other obligation, which has or may reasonably be expected to have a Material Adverse Effect; or

(j) Dissolution, termination of existence, termination of business, insolvency or business failure of Borrower or Guarantor; or the appointment of a receiver, trustee or custodian, for all or any part of the other property of Borrower or Guarantor; or the assignment for the benefit of creditors by, or the commencement of any proceeding by Borrower or Guarantor under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect; or

(k) Commencement of any proceeding against Borrower or Guarantor under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, which is not dismissed within sixty (60) days after the date commenced; or

(l) Borrower shall conceal, remove or transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any transfer of any of its property which would constitute a fraudulent, void or voidable transfer or transaction under the California Uniform Voidable Transactions Act; or

(m) Revocation or termination of, or limitation or denial of liability upon, any pledge of any material asset of any kind pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or

(n) Borrower makes any payment on account of any indebtedness or obligation which has been subordinated to the Obligations, other than as permitted in the applicable subordination agreement, or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits his subordination agreement; or

(o) Borrower shall suffer or experience any Change of Control without Lender's prior written consent, which consent shall be in the discretion of Lender in the exercise of its reasonable business judgment; or

(p) Lender shall not have a valid first priority security interest in any item of Collateral, except as to items of Collateral which are subject to Permitted Liens that are also permitted to be prior; or

(q) There is any Material Adverse Effect; or

(r) The Guarantor revokes or attempts to revoke its Guaranty;

(s) Borrower, Guarantor or any of their Affiliates fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Other Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower, Guarantor or Affiliate of Borrower; or

(t) Borrower, Guarantor or any of their Affiliates commits a breach or default in the payment or performance of any other obligation of Borrower, Guarantor or such Affiliate under any instrument, agreement, guaranty or document evidencing, supporting or securing any other loan or credit extended by any other creditor to Borrower, Guarantor, or their Affiliates, or

(u) Borrower or Guarantor commits a breach or default in the payment or performance of any other obligation of Borrower or Guarantor, or breaches any warranty or representation of Borrower, under the provisions of any other instrument, agreement, guaranty, or document evidencing, supporting, or securing any other loan or credit extended by Lender, or by any affiliate of Lender, to Borrower or Guarantor (said financing is hereinafter referred to as "other financing"), including, but not limited to, any and all term loans, revolving credits, or flooring lines of credit extended from time to time to Borrower, or any Person signing this Agreement on behalf of Borrower or Guarantor, or any other Person with which Borrower or Guarantor is affiliated and is conducting business on the Property; or Borrower causes the other financing, or any portion thereof, to be refinanced or repaid with funds lent, advanced, paid, or contributed, in whole or in part, directly or indirectly, by any other commercial lender to or for the benefit of Borrower or Guarantor. For purposes of this Agreement, the term "commercial lender", shall mean any bank, savings and loan association, savings association, savings bank, credit union, insurance company, commercial finance lender, and any other person or entity which engages in the business of lending money for commercial, investment, or business purposes.

10.2 Remedies. Upon the occurrence and during the continuance of any Event of Default, Lender, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), may do any one or more of the following:

(a) Cease making any Advances under this Agreement or otherwise extending credit to Borrower under this Agreement or any other document or agreement;

(b) Accelerate and declare all or any part of the Obligations to be immediately due, payable and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation;

(c) Exercise all rights and remedies available to a secured party under the Code;

(d) Take possession of, or obtain the appointment of a receiver to take control of, any or all of the Collateral wherever it may be found. For that purpose Borrower hereby authorizes Lender and Lender's representatives to enter onto any of Borrower's premises without interference to take possession of any of the Collateral, and remain on the premises, without charge for so long as Lender deems it reasonably necessary in order to complete the enforcement of its rights under this Agreement.

(e) Require Borrower to assemble any or all of the Collateral and make it available to Lender or Lender's representatives at places designated by Lender which are reasonably convenient to Lender or Lender's representatives and Borrower;

(f) Complete the processing or repair of any Collateral prior to a disposition thereof; and, for such purpose and for the purpose of removal, Lender shall have the right to use Borrower's premises, vehicles and other equipment and all other property without charge. Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, as it pertains to the Collateral, in completing production of, advertising for sale, and selling or otherwise disposing of any Collateral as provided in the Code;

(g) Sell, lease, license or otherwise dispose of any of the Collateral as provided in the Code, in its condition at the time Lender obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private dispositions, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. Lender shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as Lender deems reasonable, or on Lender's premises, or elsewhere and the Collateral need not be located at the place of disposition. Lender may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale, lease, license or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale;

(h) Demand payment of, and collect any Receivables and General Intangibles comprising Collateral and, in connection therewith, Borrower irrevocably authorizes Lender to endorse or sign Borrower's name on all collections, receipts, instruments and other documents, and, in Lender's sole discretion, to grant extensions of time to pay, compromise claims and settle Receivables and the like for less than face value; and

(i) Demand and receive possession of any of Borrower's federal and state income tax returns and the books and records utilized in the preparation thereof or referring thereto.

Notwithstanding the foregoing, Lender shall not dispose of any trademarks, trade names, copyrights, registrations, licenses, franchises or customer lists except in connection with foreclosure upon substantially all of Borrower's assets as provided in the Code.

All expenses, costs, liabilities and obligations incurred by Lender (including attorneys' Fees and Costs with respect to the foregoing) shall be due from Borrower to Lender on demand. Lender may charge the same to Borrower's Loan Account, and the same shall thereafter bear interest at the same rate as is applicable in this Agreement.

10.3 Standards for Determining Commercial Reasonableness.

(a) Borrower and Lender agree that any disposition, as defined in the Code ("disposition") of any Collateral which complies with the following standards will conclusively be deemed to be commercially reasonable:

(i) Notice of the disposition is given to Borrower at least ten (10) days prior to the sale, and, in the case of a public sale, notice of the sale is published at least ten (10) days before the sale in a newspaper of general circulation in the county where the sale is to be conducted;

(ii) Notice of the disposition describes the Collateral in general, non-specific terms;

(iii) The disposition is conducted at a place designated by Lender, with or without the Collateral being present;

(iv) The disposition commences at any time between 8:00 a.m. and 6:00 p.m., Los Angeles time; and

(v) With respect to any disposition of any of the Collateral, Lender may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same.

(b) Lender shall be free to employ other methods of noticing and disposing of the Collateral, in its discretion.

(c) Lender shall have no obligation to attempt to satisfy the Obligations by collecting them from any third Person which may be liable for them or any portion thereof, and Lender may release, modify or waive any collateral provided by any other third Person as security for the Obligation or any portion thereof, all without affecting Lender's rights against Borrower. Borrower waives any right it may have to require Lender to pursue any third Person for any of the Obligations.

(d) Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral, and Lender's compliance therewith will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(e) Lender may dispose of the Collateral without giving any warranties as to the Collateral. Lender may specifically disclaim any warranties of title or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(f) If Lender disposes of any of the Collateral upon credit, Borrower will be credited only with payments actually made by the purchaser, received by Lender and applied to the indebtedness of the purchaser. In the event that the purchaser fails to pay for the Collateral, Lender may resell the Collateral and Borrower will be credited with the proceeds of such disposition.

10.4 Power of Attorney.

(a) Borrower grants to Lender an irrevocable power of attorney coupled with an interest, authorizing and permitting Lender (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but Lender agrees to exercise the following powers in a commercially reasonable manner:

(i) Execute on behalf of Borrower any documents that Lender may, in its sole discretion, deem advisable in order to perfect and maintain Lender's security interest in the Collateral, or in order to exercise a right of Borrower or Lender, or in order to fully consummate all the transactions contemplated under this Agreement, and all other present and future agreements;

(ii) Execute on behalf of Borrower any document exercising, transferring or assigning any option to purchase, sell or otherwise dispose of or to lease (as lessor or lessee) any real or personal property which is part of Lender's Collateral or in which Lender has an interest;

(iii) Execute on behalf of Borrower, any invoices relating to any Receivable, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any notice of lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien;

(iv) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into Lender's possession;

(v) Endorse all checks and other forms of remittances received by Lender;

(vi) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same;

(vii) Grant extensions of time to pay, compromise claims and settle Receivables and General Intangibles for less than face value and execute all releases and other documents in connection therewith;

(viii) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefor, or both;

(ix) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefor;

(x) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give Lender the same rights of access and other rights with respect thereto as Lender has under this Agreement; and

(xi) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other present or future agreements.

(b) Any and all sums paid and any and all costs, expenses, liabilities, obligations and attorneys' fees incurred by Lender (including attorneys' fees and expenses incurred pursuant to bankruptcy) with respect to the foregoing shall be added to and become part of the Obligations, and shall be payable on demand. Lender may charge the foregoing to Borrower's Loan Account and the foregoing shall thereafter bear interest at the same rate specified in this Agreement. In no event shall Lender's rights under the foregoing power of attorney, or any of Lender's other rights under this Agreement, be deemed to indicate that Lender is in control of the business, management or properties of Borrower.

(c) Borrower shall pay, indemnify, defend, and hold Lender, Lender's affiliates and each of their respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all attorneys' fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with, or as a result of, or related to: (i) the execution, delivery, enforcement, performance, and administration of this Agreement and any Other Documents or the transactions contemplated herein, or (ii) any investigation, litigation, or proceeding related to this Agreement, any Other Document, or (iii) the use of the proceeds of the Advances provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or (iv) any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities").

(d) Borrower shall have no obligation to any Indemnified Person hereunder with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This Section 10.4 shall survive the termination of this Agreement and the repayment of the Obligations.

10.5 Application of Proceeds After Event of Default Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by Lender on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Lender's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of Lender in connection with enforcing its rights and the rights of Lender under this Agreement and the Other Documents and any protective advances made by Lender with respect to the Collateral under or pursuant to the terms of this Agreement;

SECOND, to payment of any fees owed to Lender;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of Lender to the extent owing to Lender pursuant to the terms of this Agreement;

FOURTH, to the payment of interest and fees due with respect to the Obligations;

FIFTH, to the payment of the outstanding principal amount of the Obligations;

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST' through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to the Borrower and/or whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; and (ii) Lender shall receive amounts available to be applied pursuant to clauses "FOURTH" and "FIFTH" above.

10.6 Remedies Cumulative. In addition to the rights and remedies set forth in this Agreement, Lender shall have all the other rights and remedies accorded a secured party in equity and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between Lender and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by Lender of one or more of its rights or remedies shall not be deemed an election, nor bar Lender from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of Lender to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been indefeasibly paid and performed.

11. GENERAL PROVISIONS.

11.1 Application of Payments. Subject to Section 10.5 of this Agreement, all payments with respect to the Obligations may be applied, and in Lender's sole discretion reversed and re-applied, to the Obligations, in such order and manner as Lender shall determine in its sole discretion.

11.2 Charges to Accounts. Lender may, in its discretion, require that Borrower pay monetary Obligations in cash to Lender, or charge them to Borrower's Loan Account, in which event they will bear interest from the date due to the date paid at the same rate applicable to the Advances.

11.3 [Reserved]

11.4 Notices. Any notice, demand or request required hereunder shall be given in writing (at the addresses set forth below) by any of the following means: (a) personal service; (b) electronic communication, whether by telex, telegram or telecopying; (c) overnight courier; or (d) registered or certified, first class U.S. mail, return receipt requested.

To Borrower:	To Lender:
SNAIL GAMES USA INC. 12049 Jefferson Boulevard Culver City, California 90230 Attn: Heidy Chow, CFO	CATHAY BANK 9650 Flair Drive, 7th Floor El Monte, CA 91731 Attn: Jane Ho, SVP

or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto pursuant to this section. Any notice, demand or request sent pursuant to subsection (c), above, shall be deemed received on the business day immediately following deposit with the overnight courier, and, if sent pursuant to subsection (d), above, shall be deemed received forty-eight (48) hours following deposit into the U.S. mail.

11.5 Severability. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

11.6 Integration. This Agreement and the Other Documents and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and Lender and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. There are no oral understandings, representations or agreements between the parties which are not set forth in this Agreement or in other written agreements signed by the parties in connection herewith. Lender and Borrower agree that this Agreement and the Other Documents reflect the intentions of the parties thereto and that parol evidence is not required to interpret them.

11.7 Amendment and Waivers. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of Lender and clearly specifying the extent of the amendment or the waiver. Any waiver of an Event of Default or Potential Default shall not be deemed as continuing and shall not extend to any subsequent or other Event of Default or Potential Default. The failure of Lender at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and Lender shall not waive or diminish any right of Lender later to demand and receive strict compliance therewith.

11.8 Borrower Waivers. Unless otherwise expressly required by this Agreement, Borrower hereby waives: (i) demand, protest, notice of protest and notice of dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by Lender on which Borrower is or may in any way be liable, (ii) notice of default and (iii) notice of any action taken by Lender, unless expressly required by this Agreement.

11.9 No Liability for Ordinary Negligence. Neither Lender, nor any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Lender shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Lender, or any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Lender, but nothing herein shall relieve Lender from liability for its own gross negligence or willful misconduct.

11.10 Actions. Whether or not an Event of Default has occurred, Lender shall have the right, but not the obligation, to commence, appear in, or defend any action or proceeding which affects or which Lender determines may affect (a) the Collateral; (b) Borrower's or Lender's respective rights or obligations under this Agreement; (c) the Advances; or (d) the disbursement of any proceeds of any Advance. Whether or not an Event of Default or Potential Default has occurred, Lender shall at all times have the right to take any or all actions which Lender determines to be necessary or appropriate to protect Lender's interest in connection with the Advances.

11.11 Time of Essence. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

11.12 Attorneys' Fees, Costs and Charges.

(a) On demand, Borrower shall reimburse Lender for all costs and expenses, including, without limitation, reasonable attorneys' fees costs and disbursements (and fees and disbursements of Lender's in-house counsel) (collectively the "Fees and Costs") expended or incurred by Lender in any way in connection with: (i) the enforcement of this Agreement or any Other Documents and the rights and remedies thereunder, including, without limitation, Fees and Costs incurred in connection with any workout, attempted workout, and/or in connection with the rendering of legal advice as to Lender's rights, remedies and obligations under this Agreement in connection with such enforcement or workout; (ii) collecting any sum which is or becomes due to Lender; (iii) any proceeding, or any appeal; or (iv) the exercise of the power of attorney granted to Lender in this Agreement. Fees and Costs shall include, without limitation, all out-of-pocket fees and costs incurred by Lender in connection with the appraisal, inspection, assessment, evaluation and insuring of the Collateral, and all fees and costs incurred by Lender in connection with the negotiation and preparation of the this Agreement and the Other Documents, including reasonable attorneys' fees. If litigation or other legal action is filed or commenced in connection with this Agreement or any of the Other Documents the prevailing party shall be entitled to its Fees and Costs. Fees and Costs shall include, without limitation, attorneys' fees and costs incurred in connection with the following: (1) contempt proceedings; (2) discovery; (3) any motion, adversary proceeding, contested matter, submission or confirmation or opposition to plan of reorganization or any other activity of any kind in connection with a bankruptcy case or relating to any petition or the filing thereof under Title 11 of the United States Code; (4) garnishment, levy, and debtor and third party examinations; and (5) post judgment motions and proceedings of any kind taken to clarify, collect or enforce any judgment or award.

(b) All Fees and Costs to which Lender may be entitled pursuant to this Agreement may be charged by Lender to Borrower's Loan Account and shall thereafter bear interest at the Note Rate specified in the Note.

11.13 Benefit of Agreement and Assignment.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and Lender; provided, however, that Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of Lender, and any prohibited assignment shall be void.

(b) No consent by Lender to any assignment shall release Borrower from its liability for the Obligations. Lender may assign its rights and delegate their duties hereunder without the consent of Borrower.

(c) Lender reserves the right to syndicate all or a portion of the transaction created herein or sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Lender's rights and benefits hereunder. In connection with any such syndication, assignment or participation, Lender may disclose all documents and information which Lender now or hereafter may have relating to Borrower or Borrower's business. Any such syndication by Lender shall not require the consent of the Borrower or any other Lender. To the extent that Lender assigns its rights and obligations hereunder to a third Person, Lender thereafter shall be released from such assigned obligations to Borrower.

11.14 Entire Understanding.

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between Borrower and Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by Borrower's and Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

11.15 Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, all future holders of the Obligations and their respective successors and permitted assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Lender.

(b) Participations.

(i) Lender may at any time, without the consent of, or notice to Borrower, sell participations (each a "Participation") in all or a portion of Lender's rights and obligations under this Agreement; provided that (x) Lender's obligations under this Agreement shall remain unchanged; (y) Lender shall remain solely responsible to the other parties hereto for the performance of such obligation; and (z) Borrower, Lender shall continue to deal solely and directly with Lender in connection with Lender's rights and obligations under this Agreement. Any agreement pursuant to which Lender sells such a participation shall provide that Lender shall retain the right to enforce this Agreement and approve any amendment, modification, or waiver of any provision of this Agreement.

(ii) Borrower acknowledges that in the regular course of commercial banking business one or more lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant"). Each Participant may exercise all rights of payment (including rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrower shall not be required to pay to any Participant more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Participant had Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrower be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both Lender and such Participant. Borrower hereby grants to any Participant a continuing security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Advances.

(iii) Borrower authorizes Lender to disclose to any Participant, or any prospective Participant, any and all financial information in Lender's possession concerning Borrower which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of Borrower.

11.16 Application of Payments. Lender shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that Borrower makes a payment or Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Lender.

11.17 Indemnity. Borrower shall indemnify Lender and each of Lender's respective officers, directors, Affiliates, attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Body or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non- appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including reasonable fees and disbursements of counsel) asserted against or incurred by any of the indemnitees described above in this Section 11.17 by any Person under any Environmental Laws or similar laws by reason of Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Lender, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Lender or Borrower on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any applicable law now or hereafter in effect, Borrower will pay (or will promptly reimburse Lender for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 11.17 harmless from and against all liability in connection therewith.

11.18 Captions. Headings have been set forth herein for convenience only and shall not affect the interpretation or meanings of any provisions of this Agreement. Unless the contrary is compelled by the context, everything contained in each article and section applies equally to this entire Agreement.

11.19 Independent Counsel. Borrower and Lender each acknowledge that: (i) they have had the opportunity to be represented by independent counsel in connection with this Agreement; (ii) they have executed this Agreement with the advice of such counsel, as applicable; (iii) this Agreement is the result of negotiations between the parties hereto and the advice and assistance of their representative counsel, as applicable; and (iv) the fact that this Agreement was prepared by Lender's counsel as a matter of convenience shall have no import or significance.

11.20 Publicity. Lender is hereby authorized, at its expense and in its sole discretion, to issue appropriate press releases and to cause a tombstone to be published announcing the consummation of this transaction and the aggregate amount thereof.

11.21 Governing Law; Jurisdiction; Venue.

(a) This Agreement and all acts and transactions hereunder and all rights and obligations of Lender and Borrower shall be governed by the internal laws of the State of California, without regard to its conflicts of law principles.

(b) As a material part of the consideration to Lender to enter into this Agreement, Borrower (a) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at Lender's option, be litigated in courts located within California , and that the exclusive venue therefor shall be Los Angeles County; (b) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (c) waives any and all rights Borrower may have to object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding.

11.22 Relationship of Parties. Lender shall not be deemed to be, nor does Lender or Borrower intend that Lender shall ever become, a partner, joint venturer, fiduciary, manager, controlling person or participant of any kind in the business or affairs of Borrower, whether as a result of this Agreement or any of the transactions contemplated by this Agreement. In exercising its rights and remedies under this Agreement, Lender shall at all times be acting only as a lender to Borrower within the normal and usual scope of activities of a lender.

11.23 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, and all of which together shall constitute one and the same document.

11.24 JUDICIAL REFERENCE. THE PARTIES HEREBY AGREE THAT ANY CLAIMS, CONTROVERSIES, DISPUTES, OR QUESTIONS OF INTERPRETATION, WHETHER LEGAL OR EQUITABLE, ARISING OUT OF, CONCERNING OR RELATED TO THIS AGREEMENT AND ALL LOAN DOCUMENTS EXECUTED BY BORROWER SHALL BE HEARD BY A SINGLE REFEREE BY CONSENSUAL GENERAL JUDICIAL REFERENCE PURSUANT TO THE PROVISIONS OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTS 638 ET SEQ., WHO SHALL DETERMINE ALL ISSUES OF FACT OR LAW AND TO REPORT A STATEMENT OF DECISION. THE REFEREE SHALL ALSO HAVE THE POWER TO HEAR AND DETERMINE PROCEEDINGS FOR ANCILLARY RELIEF, INCLUDING, BUT NOT LIMITED TO, APPLICATIONS FOR ATTACHMENT, ISSUANCE OF INJUNCTIVE RELIEF, APPOINTMENT OF A RECEIVER, AND/OR CLAIM AND DELIVERY. THE COSTS OF THE PROCEEDING SHALL BE BORNE EQUALLY BY THE PARTIES TO THE DISPUTE, SUBJECT TO THE DISCRETION OF THE REFEREE TO ALLOCATE SUCH COSTS BASED ON A DETERMINATION AS TO THE PREVAILING PARTY(IES) IN THE PROCEEDING. ***BY INITIALING BELOW THE PARTIES ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE FOREGOING JUDICIAL REFERENCE PROVISIONS AND UNDERSTAND THAT THEY ARE WAIVING THEIR RIGHT TO A JURY TRIAL.***

/s/	
Borrower’s Initials	Lender's Initials

[Signatures appear on following pages]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth in the heading to this Agreement.

BORROWER:

SNAIL GAMES USA INC.,
a California corporation

By: /s/ Jim Tsai
Name: Jim Tsai
Its: Chief Executive Officer

Address: 12049 Jefferson Boulevard
Culver City, CA 90230

[Signatures Continued on Next Page]

LENDER:

CATHAY BANK,
a California banking corporation

By: _____
Name: _____
Its: _____

Address: 9650 Flair Drive
El Monte, CA 91731

Telephone: (626) 279-3676
Facsimile: (626) 279-3705

EXHIBIT B

TRADE NAMES

N/A

EXHIBIT C

LOCATIONS OF COLLATERAL

1. 12049 Jefferson Boulevard, Culver City, CA 90230

Exhibit 10.3

PROMISSORY NOTE

$10,000,000.00 CITY OF EL MONTE, CALIFORNIA January 26, 2022

FOR VALUE RECEIVED, SNAIL GAMES USA INC., a California corporation ("Borrower"), promise to pay to CATHAY BANK, a California banking corporation ("Lender"), or its order, at its office located at 9650 Flair Drive, El Monte, California 91731, or at such other place as the holder hereof may designate, in lawful money of the United States of America, the principal sum of Ten Million and No/100 Dollars ($10,000,000.00), or so much thereof as shall have been advanced and is outstanding together with interest, on the outstanding principal balance, until paid in full in accordance with the terms, conditions and provisions as hereinafter set forth in this Promissory Note (this "Note").

LOAN AGREEMENT. This Note is the "Term Loan Note" as defined in that certain Second Amended and Restated Loan and Security Agreement (the "Loan Agreement") of even date herewith, entered into by and between Borrower and Lender, as it may be amended from time to time, and is subject to all of the terms and conditions thereof. All terms not defined herein shall have the same meaning as in the Loan Agreement. In the event of a conflict between the terms of this Note and the Loan Agreement, the terms of this Note shall prevail.

INTEREST RATE. Interest on the outstanding principal balance of this Note shall be computed and calculated based upon a three hundred sixty (360)-day year and actual days elapsed and shall accrue at the per annum rate (the "Note Rate") equal to the higher of three and three quarters of one percent (3.75%) and one half of one percent (0.50%) in excess of "The Wall Street Journal Prime Rate", as the rate may change from time to time. The Wall Street Journal Prime Rate is and shall mean the variable rate of interest, on a per annum basis, which is announced and/or published in the Money Rates Section of The Wall Street Journal from time to time. The Note Rate shall be redetermined whenever The Wall Street Journal Prime Rate changes. Borrower understands and acknowledges that the Wall Street Journal Prime Rate is one of Lender's base rates, and only serves as a basis upon which effective rates of interest are calculated for loans making reference thereto and may not be the lowest of Lender's base rates. If The Wall Street Journal Prime Rate becomes unavailable during the term of this Note, Lender may designate a substitute index after notice to Borrower.

PRINCIPAL AND INTEREST PAYMENTS. Interest shall be due and payable monthly, in arrears, based upon the actual number of days elapsed for that monthly period, commencing on February 28, 2022, and shall continue to be due and payable, in arrears, on the last day of each and every calendar month thereafter until the Maturity Date (as hereinafter defined). Borrower understands that Lender is entitled to a minimum interest charge of $100.00 per month.

In addition to the monthly payment of interest, above, commencing on February 28, 2022, and continuing on the last day of each and every calendar month thereafter until the Maturity Date, Borrower shall pay to Lender monthly installment payments of principal in an amount based on the then outstanding principal balance amortized over a twenty-four (24) month period of time.

Whenever increases occur in the Note Rate, Lender, at its option, may do one or more of the following: (A) increase Borrower's payments to ensure the Loan will pay off by the Maturity Date, (B) increase Borrower's payments to cover accruing interest, (C) increase the number of Borrower's payments, and/or (D) continue Borrower's payments at the same amount and increase Borrower's final payment.

Upon the Maturity Date, the entire unpaid obligation outstanding under this Note, the Loan Agreement, and any other Loan Documents shall become due and payable in full.

All payments due hereunder, including payments of principal and/or interest, shall be made to Lender in United States Dollars and shall be in the form of immediately available funds acceptable to the holder of this Note.

APPLICATION OF PAYMENTS. All payments received by Lender from, or for the account of Borrower, due hereunder shall be applied by Lender, in its sole and absolute discretion, in the following manner, or in any other order or manner as Lender chooses:

a. First. To pay any and all interest due, owing and accrued;

b. Second. To pay any and all costs, advances, expenses or fees due, owing and payable to Lender, or paid or incurred by Lender, arising from or out of this Note, the Loan Agreement, and the other Loan Documents; and

c. Third. To pay the outstanding principal balance on this Note.

All records of payments received by Lender shall be maintained at Lender's office, and the records of Lender shall, absent manifest error, be binding and conclusive upon Borrower. The failure of Lender to record any payment or expense shall not limit or otherwise affect the obligations of Borrower under this Note.

MATURITY DATE. On January 26, 2023 ("Maturity Date"), the entire unpaid principal balance, and all unpaid accrued interest thereon, shall be due and payable without demand or notice. In the event that Borrower does not pay this Note in full on the Maturity Date then, as of the Maturity Date and thereafter until paid in full, the interest accruing on the outstanding principal balance hereunder shall be computed, calculated and accrued on a daily basis at the Default Rate (as hereinafter defined).

UNPAID INTEREST, CHARGES AND COSTS. Interest, late charges, costs or expenses that are not received by Lender within ten (10) calendar days from the date such interest, late charges, costs, or expenses become due, shall, at the sole discretion of Lender, be added to the principal balance and shall from the date due bear interest at the Default Rate.

HOLIDAY. Whenever any payment to be made under this Note shall be due on a day other than a Business Day, including Saturdays, Sundays and legal holidays generally recognized by banks doing business in California, then the due date for such payment shall be automatically extended to the next succeeding Business Day, and such extension of time shall in such cases be included in the computation of the interest portion of any payment due hereunder.

NO OFFSETS OR DEDUCTIONS. All payments under this Note shall be made by Borrower without any offset, decrease, reduction or deduction of any kind or nature whatsoever, including, but not limited to, any decrease, reduction or deduction for, or on account of, any offset, present or future taxes, present or future reserves, imposts or duties of any kind or nature, that are imposed or levied by or on behalf of any government or taxing agency, body or authority by or for any municipality, state or country. If at any time, present or future, Lender shall be compelled, by any Law, rule, regulation or any other such requirement which on its face or by its application requires or establishes reserves, or payment, deduction or withholding of taxes, imposts or duties, to act such that it causes or results in a decrease, reduction or deduction (as described above) in payment received by Lender, then Borrower shall pay to Lender such additional amounts, as Lender shall deem necessary and appropriate, such that every payment received under this Note, after such decrease, reserve, reduction, deduction, payment or required withholding, shall not be reduced in any manner whatsoever.

DEFAULT. Any one or more of the following events or occurrences shall constitute a default under this Note (hereinafter "Default"):

(i) Lender does not receive a payment in the amount and within the time and manner as set forth herein; or

(ii) There shall be an Event of Default under the Loan Agreement; or

(iii) There shall be a default under any of the other Loan Documents.

Upon the occurrence of a Default hereunder, Lender may, in its sole and absolute discretion, declare the entire unpaid principal balance, together with all accrued and unpaid interest thereon, and all other amounts and payments due hereunder, immediately due and payable, without notice or demand.

DEFAULT RATE. From and after the occurrence of any Default in this Note whether by non-payment, maturity, acceleration, non-performance or otherwise, and until such Default has been cured, all outstanding amounts under this Note (including, but not limited to, interest, costs and late charges) shall bear interest at a per annum rate ("Default Rate") equal to five percent (5%) over the Note Rate.

PREPAYMENT. The principal amount of this Note may be prepaid in whole or in part; provided, however, that written notice of prepayment is received by Lender concurrently therewith. Any such prepayment shall not result in a reamortization, deferral, postponement, suspension, or waiver of any and all principal or other payments due under this Note.

LATE CHARGES. Time is of the essence for all payments and other obligations due under this Note. Borrower acknowledges that if any payment required under this Note is not received by Lender within ten (10) days after the same becomes due and payable, Lender will incur extra administrative expenses (i.e., in addition to expenses incident to receipt of timely payment) and the loss of the use of funds in connection with the delinquency in payment. Because, from the nature of the case, the actual damages suffered by Lender by reason of such administrative expenses and loss of the use of funds would be impracticable or extremely difficult to ascertain, Borrower agrees that five percent (5%) of the amount of the delinquent payment, together with interest accruing on the entire principal balance of this Note at the Default Rate, as provided above, shall be the amount of damages which Lender is entitled to receive upon such breach, in compensation therefor. Therefore, Borrower shall, in such event, without further demand or notice, pay to Lender, as Lender's monetary recovery for such extra administrative expenses and loss of use of funds, liquidated damages in the amount of five percent (5%) of the amount of the delinquent payment (in addition to interest at the Default Rate). The provisions of this paragraph are intended to govern only the determination of damages in the event of a breach in the performance of Borrower to make timely payments hereunder. Nothing in this Note shall be construed as in any way giving Borrower the right, express or implied, to fail to make timely payments hereunder, whether upon payment of such damages or otherwise. The right of Lender to receive payment of such liquidated and actual damages, and receipt thereof, are without prejudice to the right of Lender to collect such delinquent payments and any other amounts provided to be paid hereunder or under any of the Loan Documents, or to declare a default hereunder or under any of the Loan Documents.

SECURITY AND ACCELERATION. This Note is secured by the Collateral.

COSTS AND EXPENSES. Borrower hereby agrees to pay any and all costs or expenses paid or incurred by Lender by reason of, as a result of, or in connection with the enforcement of this Note or any other Loan Documents, including, but not limited to, any and all reasonable attorneys' fees and related costs when such costs or expenses are paid or incurred in connection with the enforcement of this Note and the other Loan Documents, or any of them, the protection or preservation of the collateral or security for this Note, or any other rights, remedies or interests of Lender, whether or not suit is filed. Borrower's agreement to pay any and all such costs and expenses includes, but is not limited to, costs and expenses incurred in or in connection with any bankruptcy proceeding in enforcing any judgment obtained by Lender and in connection with any and all appeals therefrom, and in connection with the monitoring of any bankruptcy proceeding and its effect on Lender's rights and claims for recovery of the amounts due hereunder, any proceeding concerning relief from the automatic stay, use of cash collateral, proofs of claim, approval of a disclosure statement or confirmation of, or objections to confirmation of, any plan of reorganization. All such costs and expenses are immediately due and payable to Lender by Borrower whether or not demand therefor is made by Lender.

WAIVERS. Borrower hereby waives grace, diligence, presentment, demand, notice of demand, dishonor, notice of dishonor, protest, notice of protest, any and all exemption rights against the indebtedness evidenced by this Note and the right to plead any statute of limitations as a defense to the repayment of all or any portion of this Note, and interest thereon, to the fullest extent allowed by law, and all compensation of cross-demands pursuant to California Code of Civil Procedure Section 431.70. No delay, omission or failure on the part of Lender in exercising any right or remedy hereunder shall operate as a waiver of such right or remedy or any other right or remedy of Lender.

MAXIMUM LEGAL RATE. This Note is subject to the express condition that at no time shall Borrower be obligated, or required, to pay interest on the principal balance at a rate which could subject Lender to either civil or criminal liability as a result of such rate being in excess of the maximum rate which Lender is permitted to charge. If, by the terms of this Note, Borrower is, at any time, required or obligated to pay interest on the principal balance at a rate in excess of such maximum rate, then the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and any portion of all prior interest payments in excess of such maximum rate shall be applied, or shall retroactively be deemed to have been payments made, in reduction of the principal balance, as the case may be.

AMENDMENT; GOVERNING LAW. This Note may be amended, changed, modified, terminated or canceled only by a written agreement signed by the party against whom enforcement is sought for any such action. This Note shall be governed by, and construed under, the Laws of the State of California.

AUTHORITY. Borrower, and each person executing this Note on Borrower's behalf, hereby represents and warrants to Lender that, by its execution below, Borrower has the full power, authority and legal right to execute and deliver this Note and that the indebtedness evidenced hereby constitutes a valid and binding obligation of Borrower without exception or limitation. In the event that this Note is executed by more than one person or entity, the liability hereunder shall be joint and several. Any married person who is obligated on this Note, directly or indirectly, agrees that recourse may be had to such person's separate property in addition to any and all community property of such person.

USA PATRIOT ACT NOTICE. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account or obtains a loan. Lender will ask for Borrower's legal name, address, tax ID number or social security number and other identifying information. Lender may also ask for additional information or documentation or take other actions reasonably necessary to verify the identity of Borrower, Guarantor or other related persons.

RIGHT OF SETOFF. To the extent permitted by applicable Law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings,, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by Law.

Borrower authorizes Lender, to the extent permitted by applicable Law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

[Signature page follows]

IN WITNESS WHEREOF, Borrower has executed this Note as of the day and year first above written.

BORROWER:

SNAIL GAMES USA, INC.,
a California corporation

By: /s/ Jim Tsai
Name: Jim Tsai
Its: Chief Executive Officer

Exhibit 10.4

LOAN AGREEMENT

SNAIL GAMES USA INC.,
a California corporation,

and

CATHAY BANK,
a California banking corporation

Dated as of June 17, 2021

THIS LOAN AGREEMENT ("Agreement") is entered into as of June 17, 2021 by and between **SNAIL GAMES USA INC.,** a California corporation ("Borrower"), and **CATHAY BANK,** a California banking corporation ("Lender").

1. DEFINITIONS AND INTERPRETATIONS.

1.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below. Capitalized terms not defined herein shall have the meanings set forth in the Code, as defined below.

"Account" has the meaning set forth in Section 9102(a)(2) of the Code.

"Account Debtor" means a Person obligated on an Account, chattel paper or General Intangibles.

"Advance" shall mean each advance, loan and financial accommodation from Lender to Borrower, whether now existing or hereafter arising and however evidenced, including those advances, loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time, and shall include the Loan.

"Affiliate" means, with respect to any Person, a relative, partner, shareholder, director, officer, or employee of such Person, or any Parent or subsidiary of such Person, or any Person controlling, controlled by or under common control with such Person.

"Agreement" means this Loan Agreement, as amended, modified or supplemented from time to time. Each reference herein to "this Agreement," "this Loan Agreement" "herein," "hereunder," "hereof" or other like words shall include this Agreement , and any annex, exhibit or schedule attached hereto or referred to herein.

"Agreement To Furnish Insurance" shall mean the Agreement To Furnish Insurance duly executed by Borrower in form and content as required by Lender and as it may from time to time be supplemented, modified or amended.

"Anti-Money Laundering Laws" shall mean the USA Patriot Act of 2001, the Bank Secrecy Act, as amended through the date hereof, Executive Order 1 3324-Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as amended through the date hereof, and other federal laws and regulations and executive orders administered by OFAC which prohibit, among other things, the engagement in transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals (such individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanction and embargo programs), and such additional laws and programs administered by OFAC which prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on any of the OFAC lists.

"Appraisal" shall mean an appraisal of the Property, or any portion thereof, performed and prepared for Lender at Borrower's sole expense by a duly licensed or certified appraiser designated by Lender and possessing all qualifications required by Lender and applicable Laws, setting forth the appraiser's opinion and determination of the fair market value of the Property; said Appraisal shall be prepared in full narrative form meeting all requirements and approaches to value as shall be necessary or appropriate in order to comply with all customary and generally accepted appraisal standards within the appraisal industry and in accordance with Lender's requirements, and to Lender's satisfaction and all applicable Laws governing Lender's operations.

"Assignment of Leases" shall mean the Absolute Assignment of Leases, Lease Guaranties, Rents, Issues and Profits duly executed and delivered to Lender by Borrower, assigning to Lender all present and future leases, subleases, rents, and concession rights, if any, and all related rights and interests of Borrower thereunder, affecting the Property, or any part thereof, and in form and content acceptable to Lender in its sole opinion and judgment, and shall include delivery to Lender of the executed originals of each of said leases.

"Borrower's Operating Account" means Borrower's demand deposit account with Lender, into which substantially all of Borrower's receipts from its operations are deposited and from which substantially all of Borrower's disbursements for its operations are made.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which California banks are authorized or required to close.

"Change of Control" shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) (other than the current holders of the ownership interests in Borrower) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, as a result of any single transaction, of fifty percent (50%) or more, of the total voting power of all classes of stock or other ownership interests then outstanding of Borrower normally entitled to vote in the election of directors or analogous governing body.

"Closing Date" means the date that all conditions precedent under Section 6.1 of this Agreement are satisfied.

"Code" means the Uniform Commercial Code as adopted and in effect in the State of California, from time to time.

"Collateral" shall mean all real and personal property of Borrower, or others, in which Lender has been and may hereafter be granted a lien, assignment or security interest to secure payment and performance of Borrower's obligation under the Loan.

"Debt Service Coverage Ratio" shall mean the ratio of (i) Borrower's EBITDA, divided by (ii) the aggregate of all interests and the scheduled payments of principal and interest payable by Borrower to Lender under the Note, and all other scheduled payments of principal and interest payable by Borrower to Lender under any other notes.

"Deed of Trust" shall mean the Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing duly executed and acknowledged by Borrower for the benefit of Lender, to secure the Loan and encumbering the Property and other assets and rights as therein provided, together with all such riders and exhibits thereto as Lender shall require.

"Default" means any event which, with notice or passage of time or both, would constitute an Event of Default.

"Default Rate" shall have the meaning set forth in Section 3 hereof.

"Dollars" or"$" means United States dollars.

"EBITDA" means Net Income before tax, plus interest expense (net of capitalized income expense), depreciation expense and amortization expense.

"Environmental Indemnity" shall mean that certain Hazardous Substances Indemnity Agreement duly executed by Borrower, as it may from time to time be supplemented, modified or amended, pursuant to which such parties shall indemnify and defend Lender from and against any loss or liability, direct or indirect, with respect to the presence or release of any hazardous or toxic material in, on, about or under the Property.

"Environmental Laws" shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

"Equipment" has the meaning set forth in Section 9102(a)(33) of the Code and includes, without limitation, all of Borrower's furniture, fixtures, trade fixtures, tenant improvements owned by Borrower, all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"Event of Default" means any of the events set forth in Section 10.1 of this Agreement.

"Fees and Costs" has the meaning set forth in Section 11.12 of this Agreement.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied on a consistent basis, applied both to classification of items and amounts.

"General Intangibles" has the meaning set forth in Section 9102(a)(42) of the Code and shall include, without limitation, payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, drawings, blueprints, patents, patent applications, trademarks and the goodwill of the business symbolized thereby, names, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against Lender, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation, life insurance, key man insurance, credit insurance, liability insurance, property insurance and other insurance), tax refunds and claims, software, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables) .

"Governmental Agency" shall mean any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, court, administrative tribunal, or public utility.

"Hazard Insurance Disclosure" shall mean the Hazard Insurance Disclosure duly executed by Borrower in form and content as required by Lender.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

"Hazardous Wastes" shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

"Indemnified Person" has the meaning set forth in Section 10.4(c) of this Agreement.

"Inventory" means all of Borrower's now owned and hereafter acquired goods, including software embedded in such goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease (including without limitation all raw materials, work in process, finished goods and goods in transit, and, including without limitation, all farm products), and all materials and supplies of every kind, nature and description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all warehouse receipts, documents of title and other documents representing any of the foregoing.

"Investment Property" has the meaning set forth in Section 9102(a)(49) of the Code.

"Laws" shall mean, individually and collectively, all federal, state, and local laws, rules, regulations, ordinances, and codes.

"Lender" shall mean Cathay Bank, a California banking corporation.

"Loan" has the meaning set forth in Section 2.1(a).

"Material Adverse Effect" means a material adverse effect on (i) the business, assets, condition (financial or otherwise) or results of operations of Borrower or any subsidiary of Borrower, (ii) the ability of Borrower to duly and punctually pay or perform its obligations under this Agreement (including, without limitation, repayment of the Obligations as they come due), (iii) the value of the Collateral, or Lender's liens on the Collateral or the privity of any such lien, or (iv) the validity or enforceability of this Agreement or any other agreement or document entered into by any party in connection herewith, or the practical realization of the benefits of Lender's rights or remedies.

"Material Litigation" shall have the meaning set forth in Section 7.10 hereof.

"Maturity Date" means June 30, 2031.

"Net Income" shall mean, for any period, the net income of the Borrower as determined in accordance with GAAP.

"Note" shall mean the Promissory Note of Borrower in the amount of the Loan payable to the order of Lender, duly executed by Borrower, as required by Lender to evidence the Loan, as originally executed and as it may from time to time be supplemented, modified or amended.

"Obligations" means all present and future Advances , loans, overdrafts , debts, liabilities, obligations, including , without limitation, all obligations of Borrower under any guaranties, covenants, duties and indebtedness at any time owing by Borrower to Lender, whether evidenced by this Agreement or any note or other instrument or document or the Other Documents, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, trust receipt, loan, overdraft, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by Lender in Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorneys' fees (including attorneys' fees and expenses incurred in bankruptcy), expert witness fees and expenses, fees and expenses of consultants, audit fees, letter of credit fees, closing fees, facility fees, termination fees, and any other sums chargeable to Borrower under this Agreement or the Other Documents.

"OFAC" shall mean the United States Department of the Treasury, Office of Foreign Assets Control.

"OFAC Prohibited Person" shall mean a country, territory, individual or person (i) listed on, included within or associated with any of the countries, territories, individuals or entities referred to on The Office of Foreign Assets Control's List of Specially Designated Nationals and Blocked Persons or any other prohibited person lists maintained by governmental authorities, or otherwise included within or associated with any of the countries, territories, individuals or entities referred to in or prohibited by OFAC or any other Anti-Money Laundering Laws, or (ii) which is obligated or has any interest to pay, donate, transfer or otherwise assign any property, money, goods, services, or other benefits from the property directly or indirectly, to any countries, territories, individuals or entities on or associated with anyone on such list or in such laws.

"Official Body" means any government or political subdivision or any agency, authority, bureau, commission, court or tribunal whether foreign or domestic.

"Other Documents" shall mean the Note and all other agreements, instruments and documents now or hereafter executed by Borrower and delivered to Lender in respect of the transactions contemplated by this Agreement.

"Parent" means any Person holding a majority of the equity interest in a corporation or limited liability company.

"Permitted Liens" means all of the following:

(a) liens in favor of Lender;

(b) purchase money security interests in specific items of Equipment;

(c) leases of specific items of Equipment;

(d) liens for taxes not yet payable;

(e) and security interests being terminated substantially concurrently with this Agreement;

(f) liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent.

"Permitted Encumbrances" shall mean only those matters and exceptions to title to the Property, as shown in the preliminary report of title and all supplements thereto, issued by the Title Company, and approved by Lender, in regard to the Property.

"Person" means any individual, sole proprietorship, general partnership, limited partnership, limited liability partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"Potential Default" means any event, act or condition which, with notice or lapse of time or both, would constitute an Event of Default.

"Property" shall mean the real property described in Exhibit "A" hereto and in the Deed of Trust and all present and future improvements thereon and appurtenances thereto.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as same may be amended from time to time.

"Receivables" means all of Borrower's now owned and hereafter acquired Accounts, letter of credit rights, license fees, contract rights, chattel paper (including tangible chattel paper, electronic chattel paper, and intangible chattel paper), instruments (including promissory notes), drafts, securities, documents, securities accounts, security entitlements, commodity contracts, commodity accounts, Investment Property, supporting obligations and all other forms of obligations at any time owing to Borrower, all guaranties and other security therefore, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Subordinated Liabilities" means liabilities subordinated to the Borrower's obligations to Lender in a manner acceptable to Lender, in its sole discretion.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing (other than securities or interest having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"Supporting Obligations" has the meaning set forth in Section 9102(77) of the Code.

"Title Company" shall mean the title insurer designated by Lender, in its sole opinion and judgment, which shall issue the Title Policy.

"Title Policy" shall mean an ALTA Loan Policy (2006 Policy Form), *written* as such at Loan Closing and issued by the Title Company, with liability equal to the full amount of the Loan, in favor of Lender, as insured, insuring the lien of the Deed of Trust to be a valid first lien on the Property subject only to the Permitted Encumbrances. The Title Policy shall have such endorsements thereto as Lender shall require. If required by Lender, the title insurance coverage will provide for reinsurance.

"Toxic Substance" shall mean and include any material present on any facility of Borrower which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. "Toxic Substance" includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

1.2 Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used in this Agreement, unless otherwise indicated , shall have the meanings given to such terms in accordance with GAAP. In addition, unless otherwise specified herein all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

1.3 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and references to the singular include the plural; references to any gender include any other gender; the part includes the whole; the term "including" is not limiting, and the term "or'' has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or". The words, "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, subsection, clause, exhibit and schedule references are to this Agreement , unless otherwise specified. Any reference in this Agreement or any of the Other Documents to this Agreement or any of the Other Documents includes any and all permitted alterations, amendments , changes, extensions, modifications, renewals, or supplements thereto or thereof, as applicable.

1.4 Exhibits and Schedules. All of the exhibits and schedules attached hereto shall be deemed incorporated herein by reference.

1.5 No Presumption Against Any Party. Neither this Agreement, any of the Other Documents, any other documents, agreement, or instrument entered into in connection herewith, nor any uncertainty or ambiguity herein or therein shall be construed or resolved using any presumption against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Agreement, the Other Documents, and all other documents, instruments, and agreements entered into in connection herewith have been reviewed by each of the parties and by their respective counsel and shall be construed and interpreted according to the ordinary meanings of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

1.6 Independence of Provisions. All agreements and covenants hereunder, under the Other Documents and the other documents, instruments, and agreements entered into in connection herewith shall be given independent effect such that if a particular action or condition is prohibited by the terms of any such agreement or covenant, the fact that such action or condition would be permitted within the limitations of another agreement or covenant shall not be construed as allowing such action to be taken or condition to exist.

2. CREDIT FACILITIES.

2.1 Term Loan. Subject to the terms and conditions of this Agreement, Lender shall make a term loan to Borrower in the principal sum of Three Million and No/100 Dollars ($3,000,000.00) (the "Loan").

(a) Interest and principal payments under the Loan shall be due and payable to Lender pursuant to the provisions of the Note.

2.2 Use of Proceeds. All Advances made to or for the benefit of Borrower shall be used solely to refinance Borrower's existing indebtedness secured by the Property. Lender shall have no obligation to monitor or verify the use or application of any Advance disbursed by Lender.

(a) Borrower shall not, directly or indirectly, use all or any part of any Advance for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (the "Board of Governors") or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock or for any purpose which violates or is inconsistent with Regulation X of the Board of Governors, unless such use has been expressly approved in writing by Lender, in its discretion.

2.3 Manner of Payment. Except as expressly provided herein, all payments (including prepayments) to be made by Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Lender in each case on or prior to 12:00 p.m., Los Angeles time, in Dollars and in immediately available funds.

3. INTEREST.

3.1 Interest Rate. The Loan shall bear interest at the rate as set forth in the Note ("Contract Rate").

3.2 Default Interest. Upon the occurrence and during the continuance of an Event of Default, Borrower shall pay interest on the unpaid principal amount of each Advance or other Obligation owing to Lender and on the unpaid amount of all interest, fees and other amounts payable hereunder that is not paid when due, payable on demand by Lender, at a rate per annum (the "Default Rate") equal at all times to five percent (5%) per annum above the Contract Rate.

4. PAYMENT OF OBLIGATIONS.

4.1 Maturity Date. On the Maturity Date, Borrower shall pay and perform in full the entire principal balance of the Loan and all other Obligations, whether for interest, costs, fees or otherwise.

4.2 Manner of Payment. Principal and interest payments due under the Note and all other Obligations shall be withdrawn from Borrower's Operating Account with Lender, or such other account with Lender as designated in writing by Borrower. In the event that Borrower's Operating Account with Lender contains insufficient funds to make any payments under this Agreement, Borrower shall remit such payment from Borrower's own funds.

4.3 Late Charge. If any payment due hereunder is not received or made within ten (10) days of the due date or there are insufficient funds in Borrower's Operating Account on the date Lender enters any debit authorized by this Agreement , without limitation, Lender's other remedies in such an event, Lender shall apply a late charge in an amount equal to five percent (5%) of the unpaid portion of the scheduled payment or $35.00, whichever is less.

4.4 Loan Fees. On the Closing Date, Borrower agrees to pay to Lender, from Borrower's own funds, for the benefit of Lender, a loan fee in the amount of $6,000. The loan fee shall be deemed fully earned when paid, and therefore, is nonrefundable.

5. SECURITY INTERESTS.

5.1 Grant of Interest. To secure the payment and performance of all of the Obligations under Loan, as and when due, Borrower hereby grants to Lender for the benefit of Lender a first priority security interest in all Collateral pursuant to the Deed of Trust.

5.2 Perfection. Lender may file one or more financing statements disclosing Lender's security interest in the Collateral. Borrower agrees that a photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. Borrower approves, authorizes and ratifies any filings or recordings made by or on behalf of Lender in connection with the perfection and continuation of Lender's security interest with respect to the Collateral.

(a) Lender may file UCC-1 financing statements against specific items of Equipment, (or amend existing UCC-1 financing statements) in Lender's sole discretion, and Borrower agrees to furnish to Lender sufficient identifying information, such as make, model and serial numbers, as Lender may request. Lender may also file a fixture filing in the real property records of the applicable county in California, to perfect its security interest in such items of Equipment as are or become fixtures.

(b) Upon demand, Borrower will deliver to Lender such other items of Collateral or will execute such documents as are appropriate to grant Lender possession or control of such Collateral as necessary to further perfect Lender's security interest therein.

6. CONDITIONS PRECEDENT.

6.1 Conditions to Loan Closing. The Loan will close if, and only if, on or before _____, 2021, subject to the satisfaction, in the sole discretion of Lender, of each, every and all of the following conditions:

(a) Accuracy of Representations and Warranties: No Default. The representations and warranties contained in Sections 7 and 8 below shall have been true and correct when made and shall be true and correct on and as of the Closing Date; and on the Closing Date, no Event of Default and no Potential Default shall have occurred and be continuing.

(b) Documents and Agreements. Borrower shall deliver to Lender the following documents, in form and substance satisfactory to Lender, in its sole and absolute discretion:

(i) An executed original of this Agreement;

(ii) The Note, fully executed;

(iii) The Deed of Trust, fully executed;

(iv) The Assignment of Leases, fully executed;

(v) The Environmental Indemnity , fully executed;

(vi) [Reserved]

(vii) Agreement to Furnish Insurance, fully executed;

(viii) Hazard Insurance Disclosure, fully executed;

(ix) A Corporate Resolution to Borrow for Borrower, fully executed;

(x) An Appraisal of the Property, satisfactory in all respects to Lender, in Lender's sole opinion and judgment;

(xi) The Title Policy or evidence of a commitment therefor. The exceptions contained in the Title Policy and all matters concerning the Property and the operation thereof must be approved by Lender and, among other provisions, shall show no blanket exceptions for anything a survey would show; and

(xii) Such other documents, instruments and information as Lender shall require.

(c) Priority of Lender's Liens. Lender shall have received the results of "of record" searches satisfactory to Lender in its sole and absolute discretion, reflecting its Uniform Commercial Code filing against Borrower indicating that Lender has a perfected, first priority lien in and upon all of the Collateral, subject only to such Permitted Liens which are also permitted to be senior to the lien of Lender.

(d) Insurance. Lender shall have received copies of the insurance binders or certificates evidencing Borrower's compliance with Section 9.2 of this Agreement , including lender's loss payee endorsements.

(e) Organizational Documents. Lender shall have received copies of Borrower's articles of incorporation or articles of organization, as applicable, and all amendments thereto, and a certificate of good standing (each certified by the California Secretary of State, and dated a recent date prior to the Closing Date), and Lender shall have received Certificates of Foreign Qualification for Borrower from the Secretary of State of each state wherein the failure to be so qualified could have a Material Adverse Effect.

(f) Certified Resolutions/Authorizations. Lender shall have received (i) copies of Borrower's by-laws or operating agreement, as applicable, and all amendments thereto, and (ii) copies of the resolutions of the board of directors of Borrower authorizing the execution and delivery of this Agreement, and the other documents contemplated hereby, and authorizing the transactions contemplated hereunder and thereunder, and authorizing specific officers or managers of Borrower to execute the same on behalf of Borrower certified by the Secretary or other acceptable officer, or the manager, as applicable, of Borrower as of the Closing Date.

(g) [Reserved].

(h) Third Party Custody. In the event that any Collateral is in the possession of a third party, Borrower shall join with Lender in notifying such third party of Lender's security interest and obtaining an acknowledgement from such third party that it is holding such Collateral for the benefit of Lender.

(i) Permits and Approvals. Verification and approval of all permits, approvals and authorizations required to pledge the Collateral to Lender.

(j) Fees. Borrower shall have paid all Fees and Costs payable by Borrower hereunder, including legal fees and costs incurred by Lender in connection with the preparation, negotiation and closing of this Agreement.

(k) Borrower's Financial Statements. Review and approval of Borrower's latest year to date month-end internally prepared consolidated financial statements and tax returns (with all forms K-1 attached), together with the similar dated aged accounts receivable and inventory reports, and any other financial statements and reports as required by Lender.

(I) [Reserved].

(m) Field Audit. An auditor selected by Lender shall have completed a field audit verifying Borrower's methodology and valuation of the Accounts, Inventory and other Collateral of Borrower, in Lender's sole opinion and judgment.

(n) Other Documents and Agreements . Lender shall have received such other agreements, instruments and documents as Lender may require in connection with the transactions contemplated hereby, all in form and substance satisfactory to Lender in Lender's sole and absolute discretion, and in form for filing in the appropriate filing office, including, but not limited to, those documents listed in Section 6.1(c).

7. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER. In order to induce Lender to enter into this Agreement and to make the Advance, Borrower represents and warrants to Lender as follows, and Borrower covenants that the following representations will continue to be true, and that Borrower will at all times comply with all of the following covenants:

7.1 State of Organization, Existence and Authority. Borrower is and will continue to be, a corporation, duly incorporated, validly existing and in good standing under the laws of the State of California. Borrower has all requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted and as presently planned to be conducted. Borrower is and will continue to be qualified and licensed to do business in California and all jurisdictions in which any failure to do so would have a Material Adverse Effect.

(a) Borrower is not in violation of any term of any of its organizational documents, agreement or instrument to which Borrower is a party or by which it or any of its properties (now or hereafter acquired) may be bound (except for violations which in the aggregate do not have a Material Adverse Effect).

(b) The execution, delivery and performance by Borrower of this Agreement , and all other documents contemplated hereby, and the creation of the lien granted under this Agreement: (i) have been duly and validly authorized, (ii) create legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms (except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally), (iii) do not violate Borrower's articles or certificate of incorporation, or Borrower's by-laws, or any law which is binding upon Borrower or its property, (iv) do not constitute a breach of, or grounds for acceleration of, any material indebtedness or obligation under any material agreement or instrument which is binding upon Borrower or its property and (v) do not require any consent, approval, license exemption or other action by any Official Body or any other person or entity except such as have already been given or shall be obtained on or before the Closing Date.

7.2 Name; Trade Names and Styles. The name of Borrower set forth in the heading to this Agreement is its correct name. All prior names of Borrower and all of Borrower's present and prior trade names are listed on Exhibit "B'' attached hereto. Borrower shall give Lender thirty (30) days' prior written notice before changing its name or doing business under any other trade name. Borrower has complied, and will in the future comply, with all laws relating to the conduct of business under a fictitious business name.

7.3 Place of Business; Location of Collateral. Borrower's address set forth in Section 12.4 hereof is the address and location of Borrower's chief executive office. In addition, Borrower has places of business and tangible Collateral located only at the locations set forth on Exhibit "C" attached hereto. Borrower will give Lender at least thirty (30) days' prior written notice before opening any additional place of business, changing its chief executive office, or moving any of the Collateral to a location other than Borrower's address set forth in Section 12.4 or one of the locations set forth on Exhibit "C" hereto.

7.4 Title to Collateral; Permitted Liens. Borrower is now, and will at all times in the future, be the sole owner of all the Collateral. Borrower has rights in and the power to transfer the Collateral. The Collateral is now, and will remain, free and clear of any and all liens, charges, security interests , encumbrances and adverse claims, except for Permitted Liens. Lender has now, and will continue to have, a first-priority perfected and enforceable security interest in all of the Collateral, subject only to the Permitted Liens which are also permitted to be senior to the lien of Lender, and Borrower will at all times defend Lender and the Collateral against all claims of others. Borrower is not and will not become a lessee under any real property lease which does, or will, prohibit, restrain, impair Borrower's right to remove any Collateral from the leased premises. Borrower will keep in full force and effect, and will comply with all the terms of, any lease of real property where any of the Collateral now or in the future may be located.

7.5 Maintenance of Collateral. Borrower will maintain the Collateral consisting of Equipment in good working condition, and Borrower will not use the Collateral for any unlawful purpose. Borrower will immediately advise Lender in writing of any material loss or damage to the Collateral.

7.6 Books and Records. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with GAAP.

7.7 Financial Condition, Statements and Reports. All financial statements now or in the future delivered to Lender have been, and will be, prepared in conformity with GAAP (except, in the case of unaudited financial statements, for the absence of footnotes and subject to normal year-end adjustments) and now and in the future will fairly reflect the financial condition of Borrower, at the times and for the periods therein stated. Between the last date covered by any such statement provided to Lender and the date hereof, there has been no Material Adverse Effect. Borrower is now and will continue to be Solvent.

7.8 Tax Returns and Payments; Pension Contributions. Borrower has timely filed, and will timely file, all tax returns and reports required by foreign, federal, state and local law; and Borrower has timely paid, and will timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions now or in the future owed by Borrower. As of the date hereof, Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. To the best of Borrower's knowledge, Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms; and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other Governmental Agency.

7.9 Violation of Laws. There are no violations or notices of violations of any Laws relating to any of the Collateral.

7.10 Litigation. There is no claim, suit, litigation, proceeding or investigation, pending, or to the best of Borrower's knowledge, threatened by or against or affecting Borrower in any court or before any Governmental Agency (or any basis therefore known to Borrower) which *if* adversely determined against Borrower would result, either separately or in the aggregate, in a Material Adverse Effect (collectively, the "Material Litigation"). Borrower will promptly inform Lender in writing of any Material Litigation.

7.11 No Default. No event has occurred and is continuing and no condition exists which constitutes an Event of Default or Potential Default.

7.12 No Advice. Borrower is not relying on Lender or Lender's agents, consultants or attorneys as to the legal sufficiency, legal effect or tax consequences of this Agreement or the acquisition of assets relating hereto (if applicable).

7.13 Compliance with Zoning Ordinances and Similar Laws. The Property complies with all applicable Laws and all permits and approvals issued thereunder, affecting the Property, the sale, operation, leasing or financing of the Property and the intended occupancy, use and enjoyment of the Property, including, but not limited to, applicable subdivision Laws, licenses and permits, building codes, zoning ordinances, flood disaster, environmental protection and equal employment regulations and appropriate supervising boards of fire underwriters and similar agencies. Borrower shall not seek, make or consent to any change *in* the zoning, conditions of use, or any other applicable land use permits, approvals or regulations pertaining to the Property, or any portion thereof, which would constitute a violation of the warranties and representations herein contained, or would change the nature of the use or occupancy of the Property.

7.14 Availability of Utilities. All utility services necessary for the proper operation of the Property for its intended purposes are available at the Property.

Condition of Property. The Property is not now damaged or injured as a result of any fire, explosion, accident, flood, or other casualty, nor subject to any action in eminent domain or any condemnation proceeding.

Brokerage Commissions. No brokerage commissions are or will be owed by Borrower in connection with the Loan, or if there are commissions due or payable, the same will be paid by Borrower. Borrower agrees to and shall indemnify and hold harmless Lender from all liability, claims, or losses arising by reason of any such brokerage commissions related to any or all acts of Borrower in connection with the Loan. This provision shall survive the repayment of the Loan and shall continue in full force and effect so long as the possibility of such liability, claims or losses exists.

Access. The Property fronts on a publicly maintained road or street and has both legal and practical access to the same.

Subordinate Financing and Leases. Borrower will not, without the prior written consent of Lender, cause there to be deeds of trust, mortgages, security agreements, liens or encumbrances on the Property or any portion thereof or interest therein. Borrower will not, without the prior written consent of Lender, enter into a lease for all or any portion of the Property.

Air Rights. Borrower has not and will not transfer, assign, convey, hypothecate or encumber any of the air rights pertaining to the Property.

Compliance with Environmental Laws. Borrower will not use, store, manufacture, generate, transport to or from, or dispose of any toxic substances, hazardous materials, hazardous wastes, radioactive materials, flammable explosives, or related material on or in connection with any property or the business of Borrower on any property. Borrower will not permit any lessee on any property to use, store, manufacture, generate, transport to or from, or dispose of any toxic substances, hazardous materials, hazardous waste , radioactive materials, flammable explosives or related material on or in connection with any property or the business on any property. (‘Toxic substances,” “hazardous materials,” and “hazardous waste” shall include, but not be limited to, such substances, materials and wastes which are or become regulated under applicable Laws or which are classified as hazardous or toxic under applicable Laws.)

Continuing Warranties. Borrower's representations and warranties set forth in this Agreement shall be true and correct at the time of execution of this Agreement and as of the Closing Date and shall survive the Closing Date and shall remain true and correct as of the date given.

8. RECEIVABLES/ ACCOUNTS.

8.1 Representations Relating to Documents and Legal Compliance. Borrower represents and warrants to Lender as follows:

(a) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Accounts are and shall be true and correct in all material respects and all such invoices, instruments and other documents and all of Borrower's books and records are and shall be genuine and in all respects what they purport to be.

(b) All sales and other transactions underlying or giving rise to each Account shall fully comply with all applicable laws and governmental rules and regulations.

(c) All documents, instruments , and agreements relating to all Accounts are and shall be legally enforceable in accordance with their terms.

9. ADDITIONAL COVENANTS OF THE BORROWER.

9.1 Financial and Other Covenants. Borrower shall at all times comply with the following covenants:

(a) Operating Account. Borrower shall, so long as any Advance remains unpaid and any commitment to make any Advance remains outstanding, maintain Borrower's Operating Account with Lender.

(b) [Reserved]

(c) Minimum Debt Service Coverage Ratio. Borrower shall maintain a minimum Debt Service Coverage Ratio of at least 1.50 to 1.00, which shall be measured quarterly, beginning with the calendar quarter ending March 31, 2020."

(d) [Reserved]

9.2 Insurance. Borrower shall, at all times, insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to Lender, in such form and amounts as Lender may reasonably require (including, without limitation, credit insurance) , and Borrower shall provide evidence of such insurance to Lender, so that Lender is satisfied that such insurance is, at all times, in full force and effect. All liability insurance policies of Borrower with respect to the Collateral shall name Lender as an additional insured, and all property, casualty and related insurance policies of Borrower with respect to the Collateral shall name Lender as a loss payee thereon and Borrower shall cause the issuance of a lender's loss payee endorsement in form reasonably acceptable to Lender. Upon receipt of the proceeds of any such insurance, Lender, at its sole option, either (i) shall apply such proceeds to the prepayment of the Obligations in such order or manner as Lender may elect, or (ii) shall disburse such proceeds to Borrower for application to the cost of repairs, replacements, or restorations. All repairs, replacements or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction. Lender may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, Lender may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall give Lender no less than thirty (30) days written notice of any cancellation of any insurance required hereunder and shall promptly forward any Notice of Cancellation it receives from any of its insurers.

9.3 Reports. Borrower, at its expense, shall provide Lender with the written reports set forth below, (all in form, substance and detail satisfactory to Lender) by the dates specified:

(a) As soon as available, and in no event later than one hundred fifty (150) days after the end of Borrower's fiscal year, commencing with the fiscal year ending December 31, 2020, Borrower shall deliver to Lender annual consolidated financial statements of Borrower audited by an independent certified public accountant acceptable to Lender.

(b) Commencing with the 2020 tax year, as soon as available, and in no event later than 30 days after filing, Borrower shall deliver to Lender true and correct copies of Borrower's Federal income tax returns (including all schedules and attachments) of Borrower (and copies of any filing extensions) prepared by an independent certified public accountant acceptable to Lender.

(c) Borrower shall, during normal business hours, from time to time upon two (2) Business Days' prior notice as frequently as Lender reasonably determines to be appropriate, but in no event less than once each year: (a) provide Lender and its officers, employees and agents access to its properties, facilities, advisors, officers and employees of Borrower and to the Collateral of Borrower, and (b) permit Lender and any of its officers, employees and agents, to inspect, audit and make extracts from Borrower's books and records. Borrower shall, during normal business hours, from time to time upon two (2) Business Days' prior notice permit Lender and its officers, employees and agents, to inspect, review, evaluate and make test verifications and counts for the Accounts, Inventory and other Collateral of Borrower. If an Event of Default has occurred and is continuing, Borrower shall provide such access to Lender at all times and without advance notice. Furthermore, so long as any Event of Default has occurred and is continuing, Borrower shall provide Lender with access to each of its suppliers and customers. Borrower shall make available to Lender and its counsel reasonably promptly originals or copies of all books and records that Lender may reasonably request. Borrower shall delivery any document or instrument necessary for Lender as it may from time to time reasonably request, to obtain records from any service bureau or other Person that maintains records for Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by Borrower. Lender will give Borrower at least two (2) days' prior written notice of regularly scheduled audits.

(d) Promptly upon Lender's request, such other books, records, statements, lists of property and accounts, budgets, forecasts or reports as to Borrower as Lender may reasonably request.

9.4 Information. Borrower shall also furnish, or cause to be furnished, to Lender such additional information as Lender may from time to time reasonably request concerning Borrower's business, and/or financial condition, or any item of Collateral.

(a) Promptly upon Borrower becoming aware of any Event of Default or Potential Default, Borrower shall give Lender notice thereof, together with a written statement setting forth the nature thereof and the steps which Borrower has taken or is taking to cure the same.

(b) Promptly upon Borrower becoming aware thereof, Borrower shall give Lender written notice of: (i) any Material Adverse Effect and (ii) the commencement or existence of any proceeding by or before any Official Body against or affecting Borrower which is reasonably likely to be adversely determined and, if adversely decided, would have a Material Adverse Effect.

9.5 Access to Books and Records and Collateral. Borrower agrees to reimburse Lender immediately upon demand for all fees and out-of-pocket expenses for field exams and audits incurred a the result of the occurrence of an Event of Default which is continuing.

(a) Borrower will not enter into any agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than the location identified in Section 11.4 hereof without first notifying Lender of the same and obtaining the written agreement from such accounting firm, service bureau or other third party to give Lender the same rights with respect to access to books and records and related rights as Lender has under this Agreement.

9.6 Negative Covenants. Borrower shall not, without Lender's prior written consent, do any of the following:

(a) create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, guaranties, leasing, loans or advances, whether secured or unsecured, matured or Un-matured, liquidated or unliquidated, direct or contingent, joint or several, except the liabilities of Borrower to Lender, and any other liabilities of Borrower existing as of, and disclosed to Lender prior to, the date of this Agreement ;

(b) loan, invest in, or advance money or assets to any other person, enterprise or entity other than any loan, investment or advance to Borrower's affiliates and subsidiaries;

(c) purchase, create or acquire any interest in any other enterprise or entity other than any purchase, creation or acquisition of interests in Borrower's affiliates and subsidiaries;

(d) incur any obligation as surety or guarantor other than in the ordinary course of business;

(e) use any of the proceeds extended pursuant to this Agreement except for the purposes stated in this Agreement and related documents;

(f) merge or consolidate with another entity;

(g) make any substantial change in the nature of Borrower's business as conducted as of the date hereof;

(h) acquire all or substantially all of the assets of any other entity;

(i) sell, transfer, assign, lease, license, or dispose of, all or a substantial or material portion of Borrower's assets, except in the ordinary course of its business;

(j) mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets owned as of the date of this Agreement or hereafter acquired, or accelerate payment on any existing debt, except any of the foregoing in favor of Lender or which is existing as of, and disclosed to Lender in writing prior to, the date of this Agreement;

(k) make any change in Borrower's capital structure which would have a Material Adverse Effect;

(I) dissolve or elect to dissolve;

(m) change the state of its incorporation;

(n) change its legal name; or

(o) use the loan proceeds for any purpose other than as set forth in this Agreement.

Transactions permitted by the foregoing provisions of this Section are only permitted if no Potential Default or Event of Default is continuing or would occur as a result of such transaction.

9.7 Litigation Cooperation. Borrower shall promptly inform Lender in writing of any proceedings (whether or not purportedly on behalf of Borrower) against Borrower involving an amount in excess of $150,000.00. Should any third-party suit or proceeding be instituted by or against Lender with respect to any Collateral or relating to Borrower, Borrower shall, without expense to Lender, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Lender may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

9.8 Further Assurances. Borrower agrees, at its expense, on request by Lender, to execute all documents and take all actions, as Lender, may deem reasonably necessary or useful in order to perfect and maintain Lender's perfected security interest in the Collateral, and in order to fully consummate the transactions contemplated by this Agreement.

9.9 Operating Account. Until such time as all of Borrower's Advances have been paid in full and this Agreement has been terminated, Borrower agrees to maintain Borrower's Operating Account with Lender. Borrower authorizes Lender to automatically deduct all payments required to be made by this Agreement from Borrower's Operating Account.

9.10 Field Audits .

Borrower shall permit Lender, on ten (10) Business Days' prior notice, to conduct a field audit of Borrower verifying Borrower's methodology and valuation of the Accounts, Inventory and other Collateral of Borrower, performed by an agent designated by Lender, all to the satisfaction of Lender in its sole opinion and judgment. In addition, Borrower shall, during normal business hours, from time to time upon ten (10) Business Days prior notice: (a) provide Lender and any of its officers, employees and agents access to its properties, facilities, advisors, officers and employees of Borrower and to the Collateral of Borrower, and (b) permit Lender and any of its officers, employees and agents to inspect, audit and make extracts from Borrower's books and records. Borrower shall, during normal business hours, from time to time upon one (1) Business Days prior notice, permit Lender, and its officers, employees and agents, to inspect, review, evaluate and make test verifications and counts for the Accounts, Inventory and other Collateral of Borrower. If an Event of Default has occurred and is continuing, Borrower shall, at Borrower's expense, provide such access to Lender at all times and without advance notice. Furthermore, so long as any Event of Default has occurred and is continuing, Borrower shall provide Lender with access to each of its suppliers and customers. Borrower shall reasonably promptly make available to Lender and its counsel originals or copies of all books and records that Lender may reasonably request. Borrower shall deliver any document or instrument necessary for Lender as it may from time to time reasonably request, to obtain records from any service bureau or other Person that maintains records for Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by Borrower. Lender will give Borrower at least ten (10) Business Days' prior written notice of regularly scheduled field audits. Borrower shall reimburse Lender for any cost incurred for such field audits. Unless an Event of Default has occurred, Borrower shall be responsible for the cost of any such audit one (1) time each year and, in no event, at a cost not to exceed $3,000.00. Borrower hereby authorized Lender to debit (without offset) any such cost from Borrower's Operating Account. **In the event that Lender deems the results of any such audit to be unsatisfactory, in Lender's sole opinion and judgment, then in such event, Lender may declare an Event of Default.**

9.11 Terrorism and Anti-Money Laundering. Borrower warrants and agrees as follows:

(a) As of the date hereof and throughout the term of the Loan until the Maturity Date and the repayment in full of the Obligations, (i) Borrower; (ii) any Person controlling or controlled by Borrower; (iii) if Borrower is a privately held entity, any Person having a beneficial interest in Borrower; or **(iv)** any Person for whom Borrower is acting as agent or nominee in connection with this transaction, is not an OFAC Prohibited Person.

(b) To comply with applicable U.S. Anti-Money Laundering Laws and regulations, all payments by Borrower to Lender or from Lender to Borrower will only be made in Borrower's name and to and from a bank account of a bank based or incorporated in or formed under the laws of the United States or a bank that is not a "foreign shell bank" within the meaning of the U.S. Bank Secrecy Act (31 U.S.C. § 5311 et seq.), as amended, and the regulations promulgated thereunder by the U.S. Department of the Treasury, as such regulations may be amended from time to time.

(c) To provide Lender at any time and from time to time during the term of the Loan until the Maturity Date and the repayment in full of the Obligations with such information as Lender determines to be necessary or appropriate to comply with the Anti-Money Laundering Laws and regulations of any applicable jurisdiction , or to respond to requests for information concerning the identity of Borrower, any Person controlling or controlled by Borrower or any Person having a beneficial interest in Borrower, from any governmental authority, self-regulatory organization or financial institution in connection with its anti-money laundering compliance procedures, or to update such information.

(d) The representations and warranties set forth in this Section 9.11 shall be deemed repeated and reaffirmed by Borrower as of each date that Borrower makes a payment to Lender under this Agreement and the Other Documents or receives any payment from Lender. Borrower agrees promptly to notify Lender in writing should Borrower become aware of any change in the information set forth in these representations.

9.12 Payment of Taxes

Borrower shall pay, or cause to be paid, and discharge, or cause to be discharged, (a) before delinquency all taxes , assessments, and governmental charges or levies imposed upon it, upon its income or profits, or upon any property belonging to it (including, without limitation, the Property); (b) when due all lawful claims, which, if unpaid, might become a lien, charge or encumbrance upon any of its assets or property (including, without limitation, the Property); and (c) all its other obligations and indebtedness when due.

9.13 Insurance.

Borrower shall obtain and at all times maintain liability insurance in amount, form and issued by a company or companies satisfactory to Lender, as required under the Deed of Trust and/or the Agreement To Furnish Insurance.

9.14 Maintenance of Property.

Borrower shall maintain and preserve, or cause to be maintained and preserved, all of its properties, necessary or useful in the proper conduct of its business, including such as may be under lease, in good working order and condition, ordinary wear and tear excepted.

9.15 Appraisals.

In addition to any rights or remedies accorded to Lender under this Agreement or any of the Other Documents, Lender may, at any time and from time to time and as and when Lender deems it to be appropriate, in its sole and absolute discretion, whether or not an Event of Default has occurred, cause to be performed and prepared an updated Appraisal of the Property (each, an Updated Appraisal"). All costs and expenses incurred by Lender in connection with any such inspection or Updated Appraisal shall be payable by Borrower to Lender upon demand if any such Updated Appraisal is ordered at such time as an Event of Default exists.

9.16 Comply With Applicable Laws.

Borrower shall comply with all applicable restrictive covenants, zoning and subdivision ordinances, building codes, health and environmental Laws and all other applicable Laws, directions, orders and notices of violations issued by any Governmental Agency relating to or affecting the premises or the business or activity being conducted thereon, whether by Borrower or by any occupant thereof, including without limitation, any and all Laws relating to hazardous or toxic waste or waste products or hazardous substances. Further, Borrower shall indemnify and hold Lender and the Trustee under the Deed of Trust harmless from the failure by Borrower to comply with such Laws in any respect.

10. EVENTS OF DEFAULT AND REMEDIES.

10.1 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay any amounts owed under this Agreement or any interest thereon or any other monetary Obligation; or

(b) Borrower shall fail to provide to Lender any notices or financial reports specified in this Agreement; or

(c) Borrower shall fail to perform any other non-monetary Obligation; or

(d) Any warranty, representation, statement, report or certificate made or delivered to Lender by Borrower or any of Borrower's officers, employees or agents, now or in the future, shall be untrue or misleading and results in a Material Adverse Effect; or

(e) Borrower shall fail to give Lender access to its books and records or the Collateral as provided herein, or shall breach any negative covenant set forth in Section 9.6 above; or

(f) Borrower shall fail to comply with the financial covenants (if any) set forth in Section 9.1 or shall fail to perform any other non-monetary Obligation which by its nature cannot be cured; or

(g) Any levy, assessment, attachment, seizure, lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral; or

(h) Any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or

(i) Borrower breaches any material contract, lease or other obligation, which has or may reasonably be expected to have a Material Adverse Effect; or

(j) Dissolution, termination of existence, termination of business, insolvency or business failure of Borrower; or the appointment of a receiver, trustee or custodian, for all or any part of the other property of Borrower; or the assignment for the benefit of creditors by, or the commencement of any proceeding by Borrower under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect; or

(k) Commencement of any proceeding against Borrower under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, which is not dismissed within sixty (60) days after the date commenced; or

(I) Borrower shall conceal, remove or transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any transfer of any of its property which would constitute a fraudulent, void or voidable transfer or transaction under the California Uniform Voidable Transactions Act; or

(m) Revocation or termination of, or limitation or denial of liability upon, any pledge of any material asset of any kind pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or

(n) Borrower makes any payment on account of any indebtedness or obligation which has been subordinated to the Obligations, other than as permitted in the applicable subordination agreement, or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits his subordination agreement; or

(o) Borrower shall suffer or experience any Change of Control without Lender's prior written consent, which consent shall be in the discretion of Lender in the exercise of its reasonable business judgment; or

(p) Lender shall not have a valid first priority security interest in any item of Collateral, except as to items of Collateral which are subject to Permitted Liens that are also permitted to be prior; or

(q) There is any Material Adverse Effect; or

(r) Borrower or any of its Affiliates fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Other Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower or Affiliate of Borrower; or

(s) Borrower or any of its Affiliates commits a breach or default in the payment or performance of any other obligation of Borrower or such Affiliate under any instrument, agreement, guaranty or document evidencing, supporting or securing any other loan or credit extended by any other creditor to Borrower or its Affiliates; or

(t) Any lien for labor, material, taxes or otherwise shall be filed against the Property and such lien shall not be either satisfied or bonded over within thirty (30) days of such filing in the full amount, to Lender's satisfaction; or

(u) Execution shall have been levied against the Property or any lien creditor(s) commence(s) suit to enforce a judgment lien against the Property and such action or suit shall not have been bonded over and shall continue unstayed and in effect for a period of more than thirty (30) calendar days; or

(v) Borrower shall voluntarily or by operation of Law, sell, transfer, convey, lease, or encumber the Property, or any interest therein, or shall contract for such sale, transfer, conveyance, or encumbrance without the prior written consent of Lender, which consent Lender may either give or withhold in its sole and absolute opinion and judgment; or

(w) The Property shall be the subject of an eminent domain proceeding or a taking adverse to the interest of Lender; or

(x) The Property is damaged or destroyed by fire or other casualty and the loss shall prove to be inadequately covered by insurance actually collected or in the process of collection; or

(y) The Property is or becomes subject to any proceedings for abatement of a public nuisance.

10.2 Remedies. Upon the occurrence and during the continuance of any Event of Default, Lender, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), may do any one or more of the following:

(a) Cease making any Advances under this Agreement or otherwise extending credit to Borrower under this Agreement or any other document or agreement;

(b) Accelerate and declare all or any part of the Obligations to be immediately due, payable and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation;

(c) Exercise all rights and remedies available to a secured party under the Code;

(d) Take possession of, or obtain the appointment of a receiver to take control of, any or all of the Collateral wherever it may be found. For that purpose Borrower hereby authorizes Lender and Lender's representatives to enter onto any of Borrower's premises without interference to take possession of any of the Collateral, and remain on the premises, without charge for so long as Lender deems it reasonably necessary in order to complete the enforcement of its rights under this Agreement.

(e) Require Borrower to assemble any or all of the Collateral and make it available to Lender or Lender's representatives at places designated by Lender which are reasonably convenient to Lender or Lender's representatives and Borrower;

(f) Complete the processing or repair of any Collateral prior to a disposition thereof; and, for such purpose and for the purpose of removal, Lender shall have the right to use Borrower's premises, vehicles and other equipment and all other property without charge. Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, as it pertains to the Collateral, in completing production of, advertising for sale, and selling or otherwise disposing of any Collateral as provided in the Code;

(g) Sell, lease, license or otherwise dispose of any of the Collateral as provided in the Code, in its condition at the time Lender obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private dispositions, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. Lender shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as Lender deems reasonable, or on Lender's premises, or elsewhere and the Collateral need not be located at the place of disposition. Lender may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale, lease, license or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale;

Notwithstanding the foregoing, Lender shall not dispose of any trademarks, trade names, copyrights, registrations, licenses, franchises or customer lists except in connection with foreclosure upon substantially all of Borrower's assets as provided in the Code.

All expenses, costs, liabilities and obligations incurred by Lender (including attorneys' Fees and Costs with respect to the foregoing) shall be due from Borrower to Lender on demand. Lender may charge the same to Borrower's Loan Account, and the same shall thereafter bear interest at the same rate as is applicable in this Agreement.

In addition to the specific rights and remedies hereinabove mentioned, Lender shall have the right to avail itself of any other rights or remedies to which it may be entitled under any then existing Laws including, but not limited to, the right to realize upon any or all of its security, and to do so in any order. Furthermore, the rights and remedies set forth above are not exclusive, and Lender may avail itself of any individual right or remedy set forth in this Agreement, or available under such Laws, without utilizing any other right or remedy.

10.3 Standards for Determining Commercial Reasonableness. Borrower and Lender agree that any disposition, as defined in the Code ("disposition") of any Collateral which complies with the following standards will conclusively be deemed to be commercially reasonable:

(i) Notice of the disposition is given to Borrower at least ten (10) days prior to the sale, and, in the case of a public sale, notice of the sale is published at least ten (10) days before the sale in a newspaper of general circulation in the county where the sale is to be conducted;

(ii) Notice of the disposition describes the Collateral in general, non-specific terms;

(iii) The disposition is conducted at a place designated by Lender, with or without the Collateral being present;

(iv) The disposition commences at any time between 8:00 a.m. and 6:00 p.m., Los Angeles time; and

(v) With respect to any disposition of any of the Collateral, Lender may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same.

(b) Lender shall be free to employ other methods of noticing and disposing of the Collateral, in its discretion.

(c) Lender shall have no obligation to attempt to satisfy the Obligations by collecting them from any third Person which may be liable for them or any portion thereof, and Lender may release, modify or waive any collateral provided by any other third Person as security for the Obligation or any portion thereof, all without affecting Lender's rights against Borrower. Borrower waives any right it may have to require Lender to pursue any third Person for any of the Obligations.

(d) Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral, and Lender's compliance therewith will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(e) Lender may dispose of the Collateral without giving any warranties as to the Collateral. Lender may specifically disclaim any warranties of title or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(f) If Lender disposes of any of the Collateral upon credit, Borrower will be credited only with payments actually made by the purchaser, received by Lender and applied to the indebtedness of the purchaser. In the event that the purchaser fails to pay for the Collateral, Lender may resell the Collateral and Borrower will be credited with the proceeds of such disposition.

10.4 Power of Attorney. Borrower grants to Lender an irrevocable power of attorney coupled with an interest, authorizing and permitting Lender (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but Lender agrees to exercise the following powers in a commercially reasonable manner:

(i) Execute on behalf of Borrower any documents that Lender may, in its sole discretion, deem advisable in order to perfect and maintain Lender's security interest in the Collateral, or in order to exercise a right of Borrower or Lender, or in order to fully consummate all the transactions contemplated under this Agreement, and all other present and future agreements;

(ii) Execute on behalf of Borrower any document exercising, transferring or assigning any option to purchase, sell or otherwise dispose of or to lease (as lessor or lessee) any real or personal property which is part of Lender's Collateral or in which Lender has an interest;

(iii) Execute on behalf of Borrower, any invoices relating to any Receivable, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any notice of lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien;

(iv) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into Lender's possession;

(v) Endorse all checks and other forms of remittances received by Lender;

(vi) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same;

(vii) Grant extensions of time to pay, compromise claims and settle Receivables and General Intangibles for less than face value and execute all releases and other documents in connection therewith;

(viii) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefore, or both;

(ix) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefore;

(x) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give Lender the same rights of access and other rights with respect thereto as Lender has under this Agreement; and

(xi) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other present or future agreements.

(b) Any and all sums paid and any and all costs, expenses, liabilities, obligations and attorneys' fees incurred by Lender (including attorneys' fees and expenses incurred pursuant to bankruptcy) with respect to the foregoing shall be added to and become part of the Obligations, and shall be payable on demand. Lender may charge the foregoing to Borrower's Loan Account and the foregoing shall thereafter bear interest at the same rate specified in this Agreement. In no event shall Lender's rights under the foregoing power of attorney, or any of Lender's other rights under this Agreement, be deemed to indicate that Lender, is in control of the business, management or properties of Borrower.

(c) Borrower shall pay, indemnify, defend, and hold Lender and each of its respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with, or as a result of, or related to: (i) the execution, delivery, enforcement, performance, and administration of this Agreement and any Other Documents or the transactions contemplated herein, or (ii) any investigation, litigation, or proceeding related to this Agreement, any Other Document, or (iii) the use of the proceeds of the Advances provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or (iv) any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities").

(d) Borrower shall have no obligation to any Indemnified Person hereunder with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person.

This Section 10.4 shall survive the termination of this Agreement and the repayment of the Obligations.

10.5 Application of Proceeds After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Lender on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Lender's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of the Lender in connection with enforcing its rights and the rights of Lender under this Agreement and the Other Documents and any protective advances made by the Lender with respect to the Collateral under or pursuant to the terms of this Agreement;

SECOND, to payment of any fees owed to the Lender;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of Lender to the extent owing to Lender pursuant to the terms of this Agreement;

FOURTH, to the payment of interest and fees due with respect to the Obligations;

FIFTH, to the payment of the outstanding principal amount of the Obligations;

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to the Borrower and/or whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; and (ii) Lender shall receive amounts available to be applied pursuant to clauses "FOURTH" and "FIFTH" above.

10.6 Remedies Cumulative. In addition to the rights and remedies set forth in this Agreement , Lender shall have all the other rights and remedies accorded a secured party in equity and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between Lender and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by Lender of one or more of its rights or remedies shall not be deemed an election, nor bar Lender from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay Lender to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been indefeasibly paid and performed.

11. GENERAL PROVISIONS.

11.1 Application of Payments and Waiver of Marshalling. Subject to Section 10.5 of this Agreement, all payments with respect to the Obligations may be applied, and in Lender's sole discretion reversed and re-applied, to the Obligations, in such order and manner as Lender shall determine in its sole discretion. In addition, Borrower hereby waives all rights, legal and equitable, it may now or hereafter have to require marshaling of assets or to direct the order in which the Property will be sold, or how the proceeds of any such sale will be allocated, in the event of any sale under the Deed of Trust, including, but not limited to, any and all rights provided by California Civil Code Sections 2899 and 3433, as such Sections may be amended from time to time.

11.2 Charges to Accounts. Lender may, in its discretion, require that Borrower pay monetary Obligations in cash to Lender, or charge them to Borrower's Loan Account, in which event they will bear interest from the date due to the date paid at the same rate applicable to the Advances.

11.3 Notice of Right to Copy of Appraisal Report. California Law provides that applicants on loans secured by real estate are entitled to receive a copy of an appraisal report which has been prepared as a result of a property appraisal. If Borrower qualifies and pays for the appraisal, it may request a copy of the appraisal report by writing to the Lender. Such written request must be received by Lender no later than 90 days after (a) Lender provides notice of the action taken on Borrower's loan application, including a notice of incompleteness, or (b) in the case of a withdrawn application, after Borrower withdraws its application. Lender's transmittal of a copy of the appraisal will be conditioned upon Borrower's payment of the cost of the appraisal. **Notices**. Any notice, demand or request required hereunder shall be given in writing (at the addresses set forth below) by any of the following means: (a) personal service; (b) electronic communication, whether by telex, telegram or telecopying; (c) overnight courier; or (d) registered or certified, first class U.S. mail, return receipt requested.

To Borrower:	To Lender:
SNAIL GAMES USA, INC. 12049 Jefferson Boulevard Los Angeles, California 90230 Attn: _____	CATHAY BANK 9650 Flair Drive, 7th Floor El Monte, CA 91731 Attn: Jane Ho, SVP

or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto pursuant to this section. Any notice, demand or request sent pursuant to subsection (c), above, shall be deemed received on the business day immediately following deposit with the overnight courier, and, if sent pursuant to subsection (d), above, shall be deemed received forty-eight (48) hours following deposit into the U.S. mail.

11.4 Severability. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

11.5 Integration. This Agreement and the Other Documents and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and Lender and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. There are no oral understandings, representations or agreements between the parties which are not set forth in this Agreement or in other written agreements signed by the parties in connection herewith . Lender and Borrower agree that this Agreement and the Other Documents reflect the intentions of the parties thereto and that parol evidence is not required to interpret them.

11.6 Amendment and Waivers. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of Lender and clearly specifying the extent of the amendment or the waiver. Any waiver of an Event of Default or Potential Default shall not be deemed as continuing and shall not extend to any subsequent or other Event of Default or Potential Default. The failure of Lender at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and Lender shall not waive or diminish any right of Lender later to demand and receive strict compliance therewith.

11.7 Borrower Waivers. Unless otherwise expressly required by this Agreement, Borrower hereby waives: (i) demand, protest, notice of protest and notice of dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by Lender on which Borrower is or may in any way be liable, (ii) notice of default and (iii) notice of any action taken by Lender, unless expressly required by this Agreement.

11.8 No Liability for Ordinary Negligence. Neither Lender nor any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Lender shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by Borrower or any other party through the ordinary negligence of Lender, or any of its directors, officers, employees, agents, attorneys or any other Person affiliated with or representing Lender, but nothing herein shall relieve Lender from liability for its own gross negligence or willful misconduct.

11.9 Actions .. Whether or not an Event of Default has occurred, Lender shall have the right, but not the obligation, to commence, appear in, or defend any action or proceeding which affects or which Lender determines may affect (a) the Collateral; (b) Borrower's or Lender's respective rights or obligations under this Agreement; (c) the Advances; or (d) the disbursement of any proceeds of any Advance. Whether or not an Event of Default or Potential Default has occurred, Lender shall at all times have the right to take any or all actions which Lender determines to be necessary or appropriate to protect Lender's interest in connection with the Advances .

11.10 Time of Essence. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

11.11 Attorneys' Fees, Costs and Charges. On demand, Borrower shall reimburse Lender for all costs and expenses, including, without limitation, reasonable attorneys' fees costs and disbursements (and fees and disbursements of Lender's in-house counsel) (collectively the "Fees and Costs") expended or incurred by Lender in any way in connection with: (i) the enforcement of this Agreement or any Other Documents and the rights and remedies thereunder, including, without limitation, Fees and Costs incurred in connection with any workout, attempted workout, and/or in connection with the rendering of legal advice as to Lender's rights, remedies and obligations under this Agreement in connection with such enforcement or workout; (ii) collecting any sum which is or becomes due to Lender; (iii) any proceeding, or any appeal ; or (iv) the exercise of the power of attorney granted to Lender in this Agreement. Fees and Costs shall include, without limitation, all out-of-pocket fees and costs incurred by Lender in connection with the appraisal, inspection, assessment, evaluation and insuring of the Collateral, and all fees and costs incurred by Lender in connection with the negotiation and preparation of the this Agreement and the Other Documents, including reasonable attorneys' fees. If litigation or other legal action is filed or commenced in connection with this Agreement or any of the Other Documents the prevailing party shall be entitled to its Fees and Costs. Fees and Costs shall include, without limitation, attorneys fees and costs incurred in connection with the following: (1) contempt proceedings; (2) discovery; (3) any motion, adversary proceeding, contested matter, submission or confirmation or opposition to plan of reorganization or any other activity of any kind in connection with a bankruptcy case or relating to any petition or the filing thereof under Title 11 of the United States Code; (4) garnishment, levy, and debtor and third party examinations; and (5) post judgment motions and proceedings of any kind taken to clarify, collect or enforce any judgment or award.

(a) All Fees and Costs to which Lender may be entitled pursuant to this Agreement may be charged by Lender to Borrower's Loan Account and shall thereafter bear interest at the Contract Rate specified in this Agreement.

11.12 Benefit of Agreement and Assignment. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and Lender; provided, however, that Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of Lender, and any prohibited assignment shall be void.

(a) No consent by Lender to any assignment shall release Borrower from its liability for the Obligations. Lender may assign its rights and delegate their duties hereunder without the consent of Borrower.

(b) Lender reserves the right to syndicate all or a portion of the transaction created herein or sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Lender's rights and benefits hereunder. In connection with any such syndication, assignment or participation, Lender may disclose all documents and information which Lender now or hereafter may have relating to Borrower or Borrower's business. Any such syndication by Lender shall not require the consent of the Borrower or any other Lender. To the extent that Lender assigns its rights and obligations hereunder to a third Person, Lender thereafter shall be released from such assigned obligations to Borrower.

11.13 Entire Understanding. This Agreement and the documents executed concurrently herewith contain the entire understanding between Borrower and Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by Borrower's and Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed , modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

11.14 Successors and Assigns; Participations.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, all future holders of the Obligations and their respective successors and permitted assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Lender.

(b) Participations.

(i) Lender may at any time, without the consent of, or notice to Borrower, sell participations (each a "Participation") in all or a portion of Lender's rights and obligations under this Agreement; provided that (x) Lender's obligations under this Agreement shall remain unchanged; (y) Lender shall remain solely responsible to Borrower for the performance of such obligation; and (z) Borrower shall continue to deal solely and directly with Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which Lender sells such a participation shall provide that Lender shall retain the right to enforce this Agreement and approve any amendment, modification, or waiver of any provision of this Agreement.

(ii) Borrower acknowledges that in the regular course of commercial banking business, Lender may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant"). Each Participant may exercise all rights of payment (including rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrower shall not be required to pay to any Participant more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Participant had Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrower be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both Lender and such Participant. Borrower hereby grants to any Participant a continuing security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Advances.

(c) Borrower authorizes Lender to disclose to any Participant, or any prospective Participant, any and all financial information in Lender's possession concerning Borrower which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of Borrower.

11.15 Application of Payments. Lender shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that Borrower makes a payment or Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Lender.

11.16 Indemnity. Borrower hereby indemnifies and agrees to hold Lender and each of Lender's respective officers, directors, Affiliates, attorneys, employees and agents (individually and collectively, "Indemnitee(s)") from and against any and all liabilities, obligations, losses, damages , penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Lender is a party thereto , except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including reasonable fees and disbursements of counsel) asserted against or incurred by any of the Indemnitees described above in this Section 11.17 by any Person (i) under any Environmental Laws or similar laws by reason of Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances; or (ii) which arise from or relate to any mechanics' lien or related proceeding relating to the Property or any other actual or alleged failure to pay or perform in connection with the Property. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Lender, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Lender or Borrower on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any applicable law now or hereafter in effect, Borrower will pay (or will promptly reimburse Lender for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 11.17 harmless from and against all liability in connection therewith.

11.17 Captions. Headings have been set forth herein for convenience only and shall not affect the interpretation or meanings of any provisions of this Agreement. Unless the contrary is compelled by the context, everything contained in each article and section applies equally to this entire Agreement.

11.18 Independent Counsel. Borrower and Lender each acknowledge that: (i) they have had the opportunity to be represented by independent counsel in connection with this Agreement; (ii) they have executed this Agreement with the advice of such counsel, as applicable; (iii) this Agreement is the result of negotiations between the parties hereto and the advice and assistance of their representative counsel, as applicable; and (iv) the fact that this Agreement was prepared by Lender's counsel as a matter of convenience shall have no import or significance.

11.19 Publicity. Lender is hereby authorized , at its expense and in its sole discretion, to issue appropriate press releases and to cause a tombstone to be published announcing the consummation of this transaction and the aggregate amount thereof.

11.20 Governing Law; Jurisdiction; Venue. This Agreement and all acts and transactions hereunder and all rights and obligations of Lender and Borrower shall be governed by the internal laws of the State of California, without regard to its conflicts of law principles.

(a) As a material part of the consideration to Lender to enter into this Agreement , Borrower (a) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at Lender's option, be litigated in courts located within California, and that the exclusive venue therefore shall be Los Angeles County; (b) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (c) waives any and all rights Borrower may have to object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding.

11.21 Relationship of Parties. Lender shall not be deemed to be, nor does Lender or Borrower intend that Lender shall ever become, a partner, joint venturer, fiduciary, manager, controlling person or participant of any kind in the business or affairs of Borrower, whether as a result of this Agreement or any of the transactions contemplated by this Agreement. In exercising its rights and remedies under this Agreement, Lender shall at all times be acting only as a lender to Borrower within the normal and usual scope of activities of a Lender.

11.22 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, and all of which together shall constitute one and the same document.

11.23 Change In Laws. In the event of the enactment, after the date of this Agreement, of any Laws: (a) deducting from the value of property for the purpose of taxation any lien or security interest thereon; (b) imposing upon Lender the payment of the whole or any part of the taxes or assessments or charges or liens herein required to be paid by Borrower; (c)changing in any way the Laws relating to the taxation of deeds of trust or mortgages or security agreements, or debts secured by deeds of trust or mortgages or security agreements, or the interest of the mortgagee or secured party in the property covered thereby; or (d) changing the manner of collection of such taxes; then, to the extent any of the foregoing may affect the Deed of Trust or the indebtedness secured thereby or Lender, then, and in any such event, Borrower, upon ten (10) days' written demand by Lender, shall pay such taxes, assessments, charges, or liens, or reimburse Lender therefor. If Borrower shall be prohibited from paying such tax or from reimbursing Lender for the amount thereof, Borrower shall execute a modification to the Other Documents and the Note, which modification shall increase the interest rate payable pursuant to the Note so as to permit Lender to maintain its yield as if such tax had not been imposed. If Borrower shall be prohibited from executing the above-referenced modifications, Lender may, in Lender's sole discretion, declare the principal of all amounts disbursed and owing under the Note, this Agreement, and the Other Documents (including all obligations secured by the Other Documents) and all other indebtedness of Borrower to Lender, together with interest thereon, to be forthwith due and payable within forty-five (45) days of written demand, regardless of any other specified maturity or due date.

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JUDICIAL REFERENCE. The parties hereby agree that any claims, controversies, disputes, or questions of interpretation, whether legal or equitable, arising out of, concerning or related to this Agreement and all loan documents executed by Borrower shall be heard by a single referee by consensual general judicial reference pursuant to the provisions of California Code of Civil Procedure Sections 638 et seq., who shall determine all issues of fact or law and to report a statement of decision. The referee shall also have the power to hear and determine proceedings for ancillary relief, including, but not limited to, applications for attachment, issuance of injunctive relief, appointment of a receiver, and/or claim and delivery. The costs of the proceeding shall be borne equally by the parties to the dispute, subject to the discretion of the referee to allocate such costs based on a determination as to the prevailing party(ies) in the proceeding. ***By initialing below the parties acknowledge that they have read and understand the foregoing Judicial Reference provisions and understand that they are waiving their right to* a *jury trial.***

/s/ H.C.	/s/ K.C.
Borrower's Initials	**Lender's Initials**

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth in the heading to this Agreement.

BORROWER:

SNAIL GAMES USA, INC.,
a California corporation

By: /s/ Shi Hai
Name: Shi Hai
Title: CEO

LENDER:

CATHAY BANK,
a California banking corporation

By: /s/ Kevin Chen
Name: Kevin Chen
Title: AVP / LPO

EXHIBIT "A"

LEGAL DESCRIPTION

The land hereinafter referred to is situated in the City of Los Angeles, County of Los Angeles, State of CA, and is described as follows:

Lots 346, 347 and 348 of Tract No. 9483, in the City of Los Angeles, County of Los Angeles. State of California, as per map recorded in Book 132 Pages 81 to 83 inclusive of maps, in the Office of the County Recorder of said County.

Excepting all oil, gas and mineral rights of said land, lying below a depth of 500 feet from the present surface thereof, but without right of surface entry reserved unto Douglas Mark Apatow and Andrea Gardner Apatow, husband and wife as community property by Grant Deed dated June 12 , 1997 recorded as Instrument No. 97-904149 of Official Records.

APN: 4220-008-028

EXHIBIT "B"

TRADE NAMES

[To be attached.]

EXHIBIT "C"
LOCATIONS OF COLLATERAL

1. _____

2. _____

3. _____

Exhibit 10.6

SNAIL GAMES USA, INC.
12049 Jefferson Blvd.
Culver City, CA 90230

Date: 08/31/2020

Dear Jim S. Tsai:

I am pleased to confirm Snail Games USA, Inc. (the "Company") conditional offer of employment to you in the position of **[Chief Operation Officer]**.

The Company's main office is located at 12049 Jefferson Blvd., Culver City, CA 90230.

Your compensation will be **[Three hundred Thirty thousand dollars ($330,000) per year]**. You will be paid on the Company's regularly scheduled paydays are on a **[bi-weekly/semi-monthly]** basis.

Your employment with the Company is at-will. This means that the terms and conditions of your employment may be changed with or without notice, with or without cause, including, but not limited to termination, demotion, promotion, transfer, benefits, duties, and location of work. There is no express or implied agreement between the Company and yourself for continued or long-term employment. No representative of the Company has the authority to alter this at-will relationship.

You will be eligible to participate in the Company's benefit plans subject to the terms, conditions, and limitations contained in the applicable plans. Currently the Company provides **[medical, dental, vision, long-term disability, 401K matching, DNO and life insurance]** coverage options for its employees.

You will be eligible to be considered of participating the stock options plan and will be awarded based on objective or subjective criteria established by the Company's management and approved by the Company's Board of Directors. Any bonus for the fiscal year in which your employment begins will be prorated, based on the number of days you are employed by the Company during that fiscal year. Any bonus for a fiscal year will be paid within [3] months after the close of that fiscal year, but only if you are still employed by the Company at the time of payment. Where issued, bonuses will not be deemed earned by you unless and until it is awarded by the Company. Determinations of the Company's Board of Directors with respect to your bonus, if any, will be final and binding.]

Any controversy between the parties to this offer letter involving the construction or application of any of the terms, covenants, or conditions of this offer letter, or the performance of either party's obligations hereunder, will, on the written request of one party served on the other, be submitted to final and binding arbitration pursuant to the Employment Arbitration Rules of the American Arbitration Association. The arbitration will comply with and be governed by the law and procedures developed under the California Arbitration Act, California Code of Civil Procedure Sections 1280 through 1294.2, and the Federal Arbitration Act, 9 U.S.C. Sections 1-16.

This offer letter supersedes any and all agreements, either oral or written, between the parties with respect to the rendering of services by you for the Company, and contains all the representations, covenants, and agreements between the parties with respect to the rendering of those services. Each party hereto acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not contained herein, and that no other agreements, statements, or promises not contained in this offer letter will be valid or binding. Any modification of the terms of this offer letter will be effective only if it is in a writing signed by the party to be charged.

We look forward to your arrival on 10/01/2020. If you have any questions prior to that time, please feel free to contact me.

If you accept this offer of employment, please sign and date this correspondence below and return the original to me before 09/15/2020. As a condition of your employment, you must also sign and return the attached Employee Confidentiality and Intellectual Property Agreement.

Sincerely,

/s/ Hai Shi
Hai Shi

CEO

I accept the above offer of employment.

/s/ Jim S. Tsai
Jim S. Tsai

EMPLOYEE CONFIDENTIALITY AND INTELLECTUAL PROPERTY AGREEMENT

This EMPLOYEE CONFIDENTIALITY AND INTELLECTUAL PROPERTY AGREEMENT (the "Agreement") is made and entered into on the date set forth below by and between Snail Games USA, Inc., a California corporation (the "Employer"), and the undersigned employee of the Company (the "Employee").

In consideration of the employment of Employee, the parties hereby agree as follows:

1. Restrictions on Use of Trade Secrets and Other Proprietary Information.

(a) During the term of Employee's employment by the Company, Employee will have access to and become acquainted with various proprietary information of Employer, including discoveries, developments, designs, formulas, patterns, devices, secret inventions, processes, software programs, technical data, financial data, customer and supplier lists, and compilations of information, records, and specifications, and other matters constituting trade secrets as defined under California Civil Code Section 3426.1, all of which are owned by Employer and regularly used in the operation of Employer's business. Employee may also have access to the confidential information of third parties that has been provided to Employer subject to a confidential disclosure agreement. The information described in this section constitutes "Proprietary Information."

(b) All Proprietary Information and all files, records, documents, drawings, specifications, equipment, computer files, computer records, computer programs, and similar items relating to the business of Employer, whether they are prepared by Employee or come into Employee's possession in any other way and whether or not they contain or constitute trade secrets owned by Employer, are and shall remain the exclusive property of Employer and shall not be removed from the premises of Employer, or reproduced or distributed in any manner, under any circumstances whatsoever without the prior written consent of Employer.

(c) Employee promises and agrees that Employee shall not misuse, misappropriate, or disclose any Proprietary Information or trade secrets described herein, directly or indirectly, or use them in any way, either during the term of this Agreement or at any time thereafter, except as required in the course of Employee's employment by the Company.

(d) Employee acknowledges and agrees that the sale or unauthorized use or disclosure of any of Employer's trade secrets obtained by Employee during Employee's employment with Employer, including information concerning Employer's current products and any future or proposed products or services, the facts that those products or services are planned, under consideration, or in production, as well as any descriptions of the features of those products or services, constitute unfair competition. Employee promises and agrees not to engage in any unfair competition with Employer either during the term of this Agreement or at any time thereafter.

2. Inventions and Patents.

(a) Employee agrees that any inventions made by Employee, solely or jointly with others, during the term of this Agreement, that are made with Employer's equipment, supplies, facilities, trade secrets, or time; or that relate, at the time of conception or of reduction to practice, to the business of Employer or Employer's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Employer, shall belong to Employer. Employee shall assign the rights to all such inventions to Employer.

(b) For purposes of this provision, "inventions" includes anything that may be patentable or copyrightable, as well as any discovery, development, design, formula, improvement, invention, software program, process, technique, trade secret, and any other form of information that derives independent economic value from not being generally known to the public or to other persons who can obtain economic value from its disclosure, whether or not registerable or protectable under patent laws, copyright laws, or other laws. The "rights" to any such invention include patents, copyrights, trademarks, service marks, and any other proprietary rights associated with the invention.

(c) Employee also agrees that Employer shall have the right to keep any such inventions as trade secrets if Employer chooses.

(d) This section shall not apply to assign to Employer any of Employee's rights in any invention that Employee develops entirely on Employee's own time without using Employer's equipment, supplies, facilities, or trade secret information, except for inventions that either (1) relate, at the time that the invention is conceived or reduced to practice, to Employer's business or to actual or demonstrably anticipated research or development of Employer; or (2) result from any work performed by Employee for Employer.

(e) In order to permit Employer to claim rights to which it may be entitled, Employee agrees to disclose to Employer in confidence all inventions that Employee makes during the course of Employee's employment and all patent applications filed by Employee within a year after termination of Employee's employment.

(f) Employee shall assist Employer in obtaining and enforcing patents and copyrights on all inventions, in the United States and in all foreign countries, and shall execute all documents and do all things necessary to obtain letters patent or copyright protection, to vest Employer with full and extensive titles thereto, and to protect the same against infringement by others. Employee's obligation to assist Employer in obtaining and enforcing such rights will continue after the termination of Employee's employment, and for such assistance rendered after the termination of employment Employer will compensate Employee at the same base rate of pay as earned by Employee from Employer for time actually spent by Employee at Employer's request.

(g) For the purposes of this Agreement, an invention is deemed to have been made during the period of Employee's employment if the invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within a year after termination of Employee's employment by Employer shall be presumed to relate to an invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

3. Return of Employer's Property.

On the termination of Employee's employment or whenever requested by Employer, Employee shall immediately deliver to Employer all property in Employee's possession or under Employee's control belonging to Employer in good condition, ordinary wear and tear and damage by any cause beyond the reasonable control of Employee excepted.

4. Noncompetition During Term of Employment.

(a) During the term of Employee's employment by Employer, Employee shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of Employer.

(b) The foregoing obligation of Employee not to compete with Employer shall not prohibit Employee from owning or purchasing any corporate securities that are regularly traded on a recognized stock exchange or over-the-counter market.

5. Soliciting Customers and Employees After Termination of Employment.

(a) Employee acknowledges and agrees that the names and addresses of Employer's customers and other information contained in the customer files (the "Customer Information") constitute trade secrets of Employer and that the sale or unauthorized use or disclosure of any of Employer's trade secrets obtained by Employee during Employee's employment with Employer constitute unfair competition. Employee further acknowledges that Employer's employees are a valuable asset in the operation of Employer's business. Employee promises and agrees not to engage in any unfair competition with Employer.

(b) For a period of **[two (2)]** years immediately following the termination of Employee's employment with Employer, Employee shall not directly or indirectly use or make known to any person, firm, or corporation that sells products in competition with Employer any of the Customer Information or other trade secrets of Employer to call on, solicit, take away, or to attempt to call on, solicit, or take away any of the customers, either for the Employee or for any other person, firm, or corporation for the purpose of selling products in competition with Employer.

(c) For a period of [**two (2)**] years immediately following the termination of Employee's employment with Employer, Employee shall not directly or indirectly solicit, recruit, or encourage any other employee of Employer to leave the Employer or work for any person or entity.

6. General Provisions.

(a) This Agreement may not be altered or modified except by a writing signed by the parties.

(b) This Agreement shall be governed by and construed according to the laws of the State of California that would apply if all parties were residents of California and the Agreement was made and performed in California.

(c) A party's failure to insist on the strict performance of any covenant or duty required by this Agreement, or to pursue any remedy under this Agreement, shall not constitute a waiver of the breach or the remedy.

(d) The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which the parties may be lawfully entitled.

(e) If any part of the Agreement is determined to be illegal or unenforceable, all other parts shall remain in effect.

(f) In any dispute between the parties, whether or not resulting in litigation, the party substantially prevailing shall be entitled to recover from the other party all reasonable costs, including, without limitation, reasonable attorneys' fees.

The parties hereto have entered into this Employee Confidentiality and Intellectual Property Agreement on the date set forth below.

Date: 08/31/2020 EMPLOYER:

Snail Games USA, Inc.

By: /s/ Hai Shi
Name: Hai Shi
Its: CEO

EMPLOYEE
Signature: /s/ Jim S. Tsai
Print Name: Jim S. Tsai

Exhibit 10.7

SNAIL GAMES USA, INC.
12049 Jefferson Blvd.
Culver City, CA 90230

November 1, 2021

Dear Jim,

On behalf of Snail Games USA, Inc., a California Corporation ("Snail Games" or the "Company"), I am excited to inform you that the Board of Directors of the Company has promoted and appointed you to be the Chief Executive Officer of Company, effective November 1, 2021. In such capacity, you will be subject to the authority of, and will report to, the Company's Board of Directors.

Effective November 1, 2021, the terms of your current employment with the Company, as reflected in that certain Letter Agreement dated August 31, 2020, between you and the Company, are amended as follows:

1. Your title shall be the Chief Executive Officer of the Company.

2. Your annual base salary shall be Six Hundred Sixty Thousand Dollars ($660,000).

Except as noted above, all other terms of your employment with the Company remain unchanged.

If you choose to accept above, please sign a copy of this letter and return it to us at your earliest convenience.

Congratulations! If you have any questions regarding this offer for employment or benefits, please do not hesitate to contact me.

Sincerely,

By: /s/ Hai Shi
Name: Hai Shi
Title: President and Chair of the Board

ACCEPTED

/s/ Jim S. Tsai
Jim S. Tsai

Dated: Dec 20 2021

Exhibit 10.8

SNAIL GAMES USA, INC.
12049 Jefferson Blvd.
Culver City, CA 90230

Date: 08/18/2020

Dear Heidy Chow:

I am pleased to confirm Snail Games USA, Inc. (the "Company") conditional offer of employment to you in the position of **[Chief Financial Officer]**.

The Company's main office is located at 12049 Jefferson Blvd., Culver City, CA 90230.

Your compensation will be **[Three hundred Eighty thousand dollars ($380,000) per year]**. You will be paid on the Company's regularly scheduled paydays are on a **[bi-weekly/semimonthly]** basis.

The first **[90]** days of your employment will be considered an introductory period. However, both during and upon the conclusion of your introductory period, employment with the Company is at-will. This means that the terms and conditions of your employment may be changed with or without notice, with or without cause, including, but not limited to termination, demotion, promotion, transfer, benefits, duties, and location of work. There is no express or implied agreement between the Company and yourself for continued or long-term employment. No representative of the Company has the authority to alter this at-will relationship.

At the conclusion of your introductory period, you will be eligible to participate in the Company's benefit plans subject to the terms, conditions, and limitations contained in the applicable plans. Currently the Company provides **[medical, dental, vision, long-term disability, 401K and life insurance]** coverage options for its employees.

[You will be eligible to be considered of participating the stock options plan and will be awarded based on objective or subjective criteria established by the Company's management and approved by the Company's Board of Directors. Any bonus for the fiscal year in which your employment begins will be prorated, based on the number of days you are employed by the Company during that fiscal year. Any bonus for a fiscal year will be paid within [3] months after the close of that fiscal year, but only if you are still employed by the Company at the time of payment. Where issued, bonuses will not be deemed earned by you unless and until it is awarded by the Company. Determinations of the Company's Board of Directors with respect to your bonus, if any, will be final and binding.]

Any controversy between the parties to this offer letter involving the construction or application of any of the terms. covenants. or conditions of this offer letter, or the performance of either party's obligations hereunder, will, on the written request of one party served on the other, be submitted to final and binding arbitration pursuant to the Employment Arbitration Rules of the American Arbitration Association. The arbitration will comply with and be governed by the law and procedures developed under the California Arbitration Act, California Code of Civil Procedure Sections 1280 through 1294.2, and the Federal Arbitration Act, 9 U.S.C. Sections 1-16.

This offer letter supersedes any and all agreements, either oral or written, between the parties with respect to the rendering of services by you for the Company, and contains all the representations, covenants, and agreements between the parties with respect to the rendering of those services. Each party hereto acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not contained herein, and that no other agreements, statements, or promises not contained in this offer letter will be valid or binding. Any modification of the terms of this offer letter will be effective only if it is in a writing signed by the party to be charged.

We look forward to your arrival on 09/21/2020. If you have any questions prior to that time, please feel free to contact me.

lf you accept this offer of employment, please sign and date this correspondence below and return the original to me before 08/28/2020. As a condition of your employment, you must also sign and return the attached Employee Confidentiality and Intellectual Property Agreement.

Sincerely,

/s/ Hai Shi
CEO

I accept the above offer of employment.

Heidy Chow /s/ Heidy Chow 8/24/2020

EMPLOYEE CONFIDENTIALITY AND INTELLECTUAL PROPERTY AGREEMENT

This EMPLOYEE CONFIDENTIALITY AND INTELLECTUAL PROPERTY AGREEMENT (the "Agreement") is made and entered into on the date set forth below by and between Snail Games USA, Inc., a California corporation (the "Employer"), and the undersigned employee of the Company (the "Employee").

In consideration of the employment of Employee, the parties hereby agree as follows:

1. Restrictions on Use of Trade Secrets and Other Proprietary Information.

(a) During the term of Employee's employment by the Company, Employee will have access to and become acquainted with various proprietary information of Employer, including discoveries, developments, designs, formulas, patterns, devices, secret inventions, processes, software programs, technical data, financial data, customer and supplier lists, and compilations of information, records, and specifications, and other matters constituting trade secrets as defined under California Civil Code Section 3426.1, all of which are owned by Employer and regularly used in the operation of Employer's business. Employee may also have access to the confidential information of third parties that has been provided to Employer subject to a confidential disclosure agreement. The information described in this section constitutes "Proprietary Information."

(b) All Proprietary Information and all files, records, documents, drawings, specifications, equipment, computer files, computer records, computer programs, and similar items relating to the business of Employer, whether they are prepared by Employee or come into Employee's possession in any other way and whether or not they contain or constitute trade secrets owned by Employer, are and shall remain the exclusive property of Employer and shall not be removed from the premises of Employer, or reproduced or distributed in any manner, under any circumstances whatsoever without the prior written consent of Employer.

(c) Employee promises and agrees that Employee shall not misuse, misappropriate, or disclose any Proprietary Information or trade secrets described herein, directly or indirectly, or use them in any way, either during the term of this Agreement or at any time thereafter, except as required in the course of Employee's employment by the Company.

(d) Employee acknowledges and agrees that the sale or unauthorized use or disclosure of any of Employer's trade secrets obtained by Employee during Employee's employment with Employer, including information concerning Employer's current products and any future or proposed products or services, the facts that those products or services are planned, under consideration, or in production, as well as any descriptions of the features of those products or services, constitute unfair competition. Employee promises and agrees not to engage in any unfair competition with Employer either during the term of this Agreement or at any time thereafter.

2. Inventions and Patents.

(a) Employee agrees that any inventions made by Employee, solely or jointly with others, during the term of this Agreement, that are made with Employer's equipment, supplies, facilities, trade secrets, or time; or that relate, at the time of conception or of reduction to practice, to the business of Employer or Employer's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Employer, shall belong to Employer. Employee shall assign the rights to all such inventions to Employer.

(b) For purposes of this provision, "inventions" includes anything that may be patentable or copyrightable, as well as any discovery, development, design, formula, improvement, invention, software program, process, technique, trade secret, and any other form of information that derives independent economic value from not being generally known to the public or to other persons who can obtain economic value from its disclosure, whether or not registerable or protectable under patent laws, copyright laws, or other laws. The "rights" to any such invention include patents, copyrights, trademarks, service marks, and any other proprietary rights associated with the invention.

(c) Employee also agrees that Employer shall have the right to keep any such inventions as trade secrets if Employer chooses.

(d) This section shall not apply to assign to Employer any of Employee's rights in any invention that Employee develops entirely on Employee's own time without using Employer's equipment, supplies, facilities, or trade secret information, except for inventions that either (1) relate, at the time that the invention is conceived or reduced to practice, to Employer's business or to actual or demonstrably anticipated research or development of Employer; or (2) result from any work performed by Employee for Employer.

(e) In order to permit Employer to claim rights to which it may be entitled, Employee agrees to disclose to Employer in confidence all inventions that Employee makes during the course of Employee's employment and all patent applications filed by Employee within a year after termination of Employee's employment.

(f) Employee shall assist Employer in obtaining and enforcing patents and copyrights on all inventions, in the United States and in all foreign countries, and shall execute all documents and do all things necessary to obtain letters patent or copyright protection, to vest Employer with full and extensive titles thereto, and to protect the same against infringement by others. Employee's obligation to assist Employer in obtaining and enforcing such rights will continue after the termination of Employee's employment, and for such assistance rendered after the termination of employment Employer will compensate Employee at the same base rate of pay as earned by Employee from Employer for time actually spent by Employee at Employer's request.

(g) For the purposes of this Agreement, an invention is deemed to have been made during the period of Employee's employment if the invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within a year after termination of Employee's employment by Employer shall be presumed to relate to an invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

3. Return of Employer's Property.

On the termination of Employee's employment or whenever requested by Employer, Employee shall immediately deliver to Employer all property in Employee's possession or under Employee's control belonging to Employer in good condition, ordinary wear and tear and damage by any cause beyond the reasonable control of Employee excepted.

4. Noncompetition During Term of Employment.

(a) During the term of Employee's employment by Employer, Employee shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of Employer.

(b) The foregoing obligation of Employee not to compete with Employer shall not prohibit Employee from owning or purchasing any corporate securities that are regularly traded on a recognized stock exchange or over-the-counter market.

5. Soliciting Customers and Employees After Termination of Employment.

(a) Employee acknowledges and agrees that the names and addresses of Employer's customers and other information contained in the customer files (the "Customer Information") constitute trade secrets of Employer and that the sale or unauthorized use or disclosure of any of Employer's trade secrets obtained by Employee during Employee's employment with Employer constitute unfair competition. Employee further acknowledges that Employer's employees are a valuable asset in the operation of Employer's business. Employee promises and agrees not to engage in any unfair competition with Employer.

(b) For a period of **[two (2)]** years immediately following the termination of Employee's employment with Employer, Employee shall not directly or indirectly use or make known to any person, firm, or corporation that sells products in competition with Employer any of the Customer Information or other trade secrets of Employer to call on, solicit, take away, or to attempt to call on, solicit, or take away any of the customers, either for the Employee or for any other person, firm, or corporation for the purpose of selling products in competition with Employer.

(c) For a period of **[two (2)]** years ·immediately following the termination of Employee's employment with Employer, Employee shall not directly or indirectly solicit, recruit, or encourage any other employee of Employer to leave the Employer or work for any person or entity.

6. General Provisions.

(a) This Agreement may not be altered or modified except by a writing signed by the parties.

(b) This Agreement shall be governed by and construed according to the laws of the State of California that would apply if all parties were residents of California and the Agreement was made and performed in California.

(c) A party's failure to insist on the strict performance of any covenant or duty required by this Agreement, or to pursue any remedy under this Agreement, shall not constitute a waiver of the breach or the remedy.

(d) The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which the parties may be lawfully entitled.

(e) If any part of the Agreement is determined to be illegal or unenforceable, all other parts shall remain in effect.

(f) In any dispute between the parties, whether or not resulting in litigation, the party substantially prevailing shall be entitled to recover from the other party all reasonable costs, including, without limitation, reasonable attorneys' fees.

The parties hereto have entered into this Employee Confidentiality and Intellectual Property Agreement on the date set forth below.

Date: 08/18/2020 **EMPLOYER:**

Snail Games USA, Inc.

By: _____
Name: Jim Tsai
Its: President

EMPLOYEE

Signature: /s/ Heidy Chow
Print Name: Heidy Chow

Exhibit 10.9

Snail Games USA
5300 Beethoven Street
Penthouse Floor
Los Angeles, CA 90066
323.207.6245

EMPLOYMENT AGREEMENT

This Agreement is made between Snail Games USA Inc., a California corporation ("Snail USA"), and Peter Kang, a resident of the State of California ("Employee") on December 10, 2012.

WHEREAS, the Parties enter into this Agreement through amicable negotiation and in consideration of the promises contained in this Agreement, the Parties hereby agree as follows:

1. Term of Employment. Employee shall be a full time, non-exempt, at-will employee of Snail USA and his or her contract with Snail USA may be terminated at any point in time at will by either party. Your official starting date shall be Monday, December 10, 2012 at 10:00am.

2. Positions and Responsibilities.

   a. Position. The Employee is employed as Community Representative with the following duties and responsibilities:

      i. Perform basic forum moderation (deleting posts, locking threads, warning users)
      ii. Create basic informational posts (scheduled maintenance, game updates)
      iii. Monitor CS Facebook and Twitter pages for unwanted content

   b. Responsibilities. Snail USA may, within reason, change or amend Employee's duties and responsibilities based upon job requirements and the Employee's work performance and capabilities.

3. Remuneration.

   a. Salary. The Employee shall be paid an hourly rate of $13/hour. Employee shall be paid according to the standard policies of Snail USA, which is currently on a twice per month system (first day and middle of each calendar month).

   b. United States Taxes. Snail USA will have the right to deduct or withhold from compensation due to Employee all amounts required to be withheld by law for social Security, Medicare, federal, state, and local taxes as applicable from time to time, and such other amounts as required by law or as Employee authorizes Snail USA to withhold.

   c. Vacation days. Employee accrues 3.33 hours toward a paid vacation day for every half month worked. 8 (eight) accrued hours equals one full paid vacation day. Therefore, for every full calendar year of continuous employment, Employee would accrue 10 (ten) paid vacation days. Vacation days roll over year to year. An employee is permitted to accrue up to thirty vacation days.

d. Sick Days. Employee is given six sick days per year, prorated based on starting date of employment. Unused sick days do not rollover at the end of each calendar year.

e. Employee is eligible for medical, dental and vision coverage starting January 1, 2013.

4. Intellectual Property.

a. Patent Rights. Any invention, discovery, design, improvement and achievement made by the Employee while using Snail USA or Suzhou Snail Electronic Co., Ltd.'s materials and technical resources during the Employee's employment is owned by Snail USA or Suzhou Snail Electronic Co., Ltd. The Employee shall not disclose such invention, discovery, design, improvement and achievement to any third party or have the right to commercially exploit them without Snail USA or Suzhou Snail Electronic Co., Ltd.'s written consent.

b. Copyrights. The copyrights of any project design, product pattern, computer software, drawings or other work of the Employee using Snail USA or Suzhou Snail Electronic Co., Ltd.'s materials and technical resources during the Employee's employment shall be owned by Snail USA or Suzhou Snail Electronic Co., Ltd. Employee acknowledges that all original work of authorship which are made by Employee (solely or jointly with others) within the scope of his or her employment and which are protectable by copyright are "works made for hire," pursuant to the United States Copyright Act. In the event any work cannot be deemed a "work made for hire" as such is defined under the United States copyright law and other applicable law, Employee hereby agrees to assign all of his or her rights, title and interest in and to any such work to Snail USA.

c. Term. The rights and obligations under this Section 4 shall continue in force after termination of this Agreement in perpetuity.

5. Confidentiality. The Employee hereby acknowledges that Snail USA and or Suzhou Snail Electronic Co., Ltd have and own certain confidential information and secrets which are not accessible to the public, capable of generating economic benefits and having certain business value, and that Snail USA and or Suzhou Snail Electronic Co., Ltd have adopted appropriate measures to safeguard this confidential information and secrets ("Confidential Information"). Confidential Information does not include any of the items referred to above or below which has become publicly known or made generally available through no wrongful act of Employee or of others who were under confidentiality obligation as to the item or items involved. Due to his or her position with Snail USA, the Employee has access to or has the possibility to access such Confidential Information. Confidential Information includes without limitation:

a. Technical Secrets, including but not limited to software scheme and conception, technical drawings, software, any source codes, internal design, algorithm, file format, business procedure, software programming, making method, drawings, process, formula, production report and plan, technical development, planning and method, as well as all kinds of carriers containing aforementioned contents.

b. Data Secrets, including but not limited to operation data, sales data, promotion data, price strategy, as well as all kinds of carriers containing aforementioned contents.

c. Business Secrets, including but not limited to business targets and plans, purchase channels, prices and networks, purchase plans, human resources systems, management systems, sales plans and policies, sales price information, advertisement plans, customer networks.

6. Conflicts of Interest. During the term of employment, Employee will not, without the written consent of Snail USA,

a. Directly or indirectly, engage, participate, or assist in any business which competes with, or is preparing to compete with, Snail USA in any manner whatsoever in any line of business engaged in or for which Snail USA is preparing to engage.

b. Entice, induce, or encourage, directly or indirectly, any of Snail USA's employees or consultants to engage in any activity which, were it done by Employee, would violate this Agreement.

7. Warranties. The Employee hereby agrees and warrants that, during the term of this Agreement and the termination or dissolution or rescission thereafter, the Employee shall not utilize Confidential Information for his or her personal purpose or gain, and that, unless otherwise permitted by Snail USA in writing, he or she shall not disclose any such Confidential Information to any company or person, organization or entity for any purpose and in any manner. Notwithstanding the foregoing, Employee may disclose any Confidential Information if required to do so by state or federal law or any state or federal agency as required for compliance with United States laws and regulations. The Employee further acknowledges that Snail USA and or Suzhou Snail Electronic Co., Ltd have absolute title to such Confidential Information, and the Employee will not raise any objection or claim any right to the ownership of such Confidential Information, and that, unless in the name of Snail USA and or Suzhou Snail Electronic Co., Ltd, he or she shall not apply for any registration or filing of the ownership right to the Confidential Information in any place of the world under his/her or any other person or company's name.

8. Amendment and Termination.

a. This Agreement may be amended with the written consent of both Parties.

b. This Agreement may be terminated at will by either Snail USA or Employee.

9. Disputes.

   a. Governing Law. This agreement shall be governed by and interpreted in accordance with the laws and regulations of the State of California and the United States of America.

   b. Arbitration. In the event a dispute arises between the parties out of this Agreement or relating in any way to Employee's employment or termination of employment, the Parties agree to submit to binding arbitration, to be held in Los Angeles County, California, before a single arbitrator, in accordance with the then-current JAMS Arbitration Rules and Procedures.

10. Miscellaneous.

   a. Construction. In the event that any of the provisions contained in this Agreement will be or are, for any reason, held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability will not affect the other provisions of this Agreement. If any of the provisions of this Agreement will be or are, for any reason, held to be excessively broad as to duration, geographical scope, activity, or subject, it will be construed by limiting and reducing it, so as to be enforceable to the extent compatible with the then applicable law. Any matters not covered by this Agreement shall be conducted in accordance with the policies and rules of Snail USA and relevant United States laws and regulations.

   b. Assignment. This Agreement and the rights and obligations contained in this Agreement may be assigned by Snail USA to a successor entity, provided that such successor entity agrees in writing to be bound by and to perform each provision of this Agreement. Notwithstanding the foregoing, neither party will have the right to assign this Agreement nor the rights and obligations contained therein.

   c. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to Employee's employment with Snail USA. Such agreements supersede all prior agreements, understandings, and communications between the parties with respect to such subject matter.

   d. Signatures. This Agreement shall come into effect upon signature by an authorized representative of Snail USA, as well as the signature of Employee.

   e. Counterparts. This Agreement may be executed by the parties in counterpart, each of which shall be deemed an original and all of which together shall be deemed one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first written above.

SNAIL GAMES USA INC.	EMPLOYEE
/s/ Jeanette Zhou	/s/ Peter Kang
Jeanette Zhou, President	Peter Kang

Exhibit 10.10

SNAIL GAMES USA, INC.
12049 Jefferson Blvd.
Culver City, CA 90230

December 1, 2021

Peter Kang
_____
_____

Dear Peter,

On behalf of Snail Games USA, Inc., a California Corporation ("Snail Games" or the "Company"), I am excited to inform you that the Board of Directors of the Company has promoted and appointed you to be the Chief Operating Officer of Company, effective December 1, 2021. In such capacity, you will be subject to the authority of, and will report to, the Company's Chief Executive Officer.

Effective December 1, 2021, the terms of your current employment with the Company, as reflected in that certain Employment Agreement dated December 10, 2012, between you and the Company, are amended as follows:

1. Your title shall be the Chief Operating Officer of the Company.

2. Your annual base salary shall be Three Hundred Thousand Dollars ($300,000).

3. Your duties shall be full time attention exclusively to rendering the services to the Company customarily incident to a Chief Operating Officer position and to such other services as may be reasonably requested by the Company's CEO and/or the Board of Directors.

Except as noted above, all other terms of your employment with the Company remain unchanged.

If you choose to accept above, please sign a copy of this letter and return it to us at your earliest convenience.

Congratulations! If you have any questions regarding this offer for employment or benefits, please do not hesitate to contact me.

Sincerely,

By: /s/ Jim Tsai
Name: Jim Tsai
Title: COO

ACCEPTED

/s/ Peter Kang
Peter Kang
Dated: 12/20/2021

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Snail Games USA Inc. and Subsidiaries
Culver City, California

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement of our report dated May 26, 2022, relating to the consolidated financial statements of Snail Games USA Inc. and Subsidiaries, which are contained in that Prospectus.

We also consent to the reference to us under the caption “Experts” in the Prospectus.

/s/ BDO USA, LLP

Costa Mesa, California
September 16, 2022

Exhibit 99.1

CONSENT TO BE NAMED AS A DIRECTOR NOMINEE

In connection with the filing by Snail, Inc., of the Registration Statement on Form S-1, and in all subsequent amendments and post-effective amendments or supplements thereto (together with all such amendments and supplements, the "Registration Statement"), with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), I hereby consent, pursuant to Rule 438 of the Securities Act, to being named in the Registration Statement as a person who has agreed to serve as a director of Snail, Inc., and to the inclusion of my biographical information in the Registration Statement. I also consent to the filing of this consent as an exhibit to the Registration Statement.

/s/ Neil James Foster

Name: Neil James Foster

Date: 9/13/2022

Exhibit 99.2

CONSENT TO BE NAMED AS A DIRECTOR NOMINEE

In connection with the filing by Snail, Inc., of the Registration Statement on Form S-1, and in all subsequent amendments and post-effective amendments or supplements thereto (together with all such amendments and supplements, the "Registration Statement"), with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), I hereby consent, pursuant to Rule 438 of the Securities Act, to being named in the Registration Statement as a person who has agreed to serve as a director of Snail, Inc., and to the inclusion of my biographical information in the Registration Statement. I also consent to the filing of this consent as an exhibit to the Registration Statement.

/s/ Sandra Lynn Pundmann

Name: Sandra Lynn Pundmann

Date: 9/12/2022

Exhibit 107

Calculation of Filing Fee Tables

S-1
(Form Type)

SNAIL, INC.

(Exact name of registrant as specified in its charter)

Table 1: Newly Registered and Carry Forward Securities

	Security Type	Security Class Title	Fee Calculation or Carry Forward Rule	Amount Registered	Proposed Maximum Offering Price Per Unit	Maximum Aggregate Offering Price(1) (2)	Fee Rate	Amount of Registration Fee	Carry Forward Form Type	Carry Forward File Number	Carry Forward Initial Effective Date	Filing Fee Previously Paid In Connection with Unsold Securities to be Carried Forward
Newly Registered Securities												
Fees to be Paid												
Fees Previously Paid	Equity	Class A common stock	457(o)			$ 1,000,000	$92.70 per $1,000,000	$ 92.70				
Carry Forward Securities												
		Total Offering Amounts				$ 1,000,000		$ 92.70				
		Total Fees Previously Paid						$ 92.70				
		Total Fee Offsets						—				
		Net Fee Due						$ 0				

(1) Includes shares of Class A common stock which the underwriters have the option to purchase to cover over-allotments and shares of Class A common stock issuable upon the exercise of warrants to purchase Class A common stock.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

Table 2: Fee Offset Claims and Sources

N/A

Table 3: Combined Prospectuses

N/A