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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period _______________

Commission File Number: 001-36689

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

Delaware	**47-1025534**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
250 West 57th Street, Suite 2223 New York, NY	**10107**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(646) 565-3861**

(Former name or former address, if changed since last report)

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

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

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	INSE	The NASDAQ Stock Market LLC
Preferred Stock Purchase Rights		The NASDAQ Stock Market LLC

As of August 5, 2019, there were 22,818,071 shares of the Company's common stock issued and outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	June 30, 2019 (Unaudited)	September 30, 2018
Assets		
Current assets		
Cash	$ 33.7	$ 22.5
Accounts receivable, net	10.7	14.3
Inventory, net	5.6	5.2
Fair value of hedging instrument	0.5	0.8
Prepaid expenses and other current assets	11.8	15.8
Total current assets	62.3	58.6
Property and equipment, net	31.6	45.7
Software development costs, net	38.1	40.0
Other acquired intangible assets subject to amortization, net	3.2	5.7
Goodwill	44.7	45.8
Other assets	7.8	12.1
Total assets	$ 187.7	$ 207.9
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 9.5	$ 14.4
Accrued expenses	14.8	14.3
Earnout liability	—	8.0
Corporate tax and other current taxes payable	1.4	2.0
Deferred revenue, current	10.2	9.2
Other current liabilities	5.6	3.9
Current portion of long-term debt	9.3	—
Current portion of capital lease obligations	0.2	0.5
Total current liabilities	51.0	52.3
Long-term debt	132.4	131.2
Capital lease obligations, net of current portion	—	0.1
Deferred revenue, net of current portion	18.4	23.9
Derivative liability	4.0	7.8
Other long-term liabilities	4.5	5.1
Total liabilities	210.3	220.4
Commitments and contingencies		
Stockholders' deficit		
Preferred stock; $0.0001 par value; 1,000,000 shares authorized	—	—
Series A Junior Participating Preferred stock; $0.0001 par value; 1,000,000 shares authorized; 49,000 shares designated; no shares issued and outstanding at June 30, 2019 and September 30, 2018	—	—
Common stock; $0.0001 par value; 49,000,000 shares authorized; 22,193,955 shares and 20,860,591 shares issued and outstanding at June 30, 2019 and September 30, 2018, respectively	—	—
Additional paid in capital	343.1	328.5
Accumulated other comprehensive income	54.2	58.5
Accumulated deficit	(419.9)	(399.5)
Total stockholders' deficit	(22.6)	(12.5)
Total liabilities and stockholders' deficit	$ 187.7	$ 207.9

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Service	$ 25.6	$ 34.5	$ 56.4	$ 67.8
Hardware	1.1	2.4	4.0	6.6
Total revenue	26.7	36.9	60.4	74.4
Cost of sales, excluding depreciation and amortization:				
Cost of service	(5.3)	(5.9)	(10.7)	(11.9)
Cost of hardware	(1.0)	(2.1)	(2.6)	(6.2)
Selling, general and administrative expenses	(12.8)	(15.2)	(27.5)	(30.9)
Stock-based compensation expense	(2.3)	(1.5)	(4.4)	(2.7)
Acquisition related transaction expenses	(0.7)	—	(1.6)	(0.2)
Depreciation and amortization	(9.1)	(10.6)	(18.8)	(21.7)
Net operating loss	(4.5)	1.6	(5.2)	0.8
Other (expense) income				
Interest income	0.1	—	0.1	0.1
Interest expense	(4.0)	(5.2)	(8.5)	(10.3)
Change in fair value of earnout liability	—	(0.6)	(2.3)	3.1
Change in fair value of derivative liability	(1.3)	—	(0.1)	1.5
Other finance income (expense)	(0.9)	0.2	0.3	0.4
Total other expense, net	(6.1)	(5.6)	(10.5)	(5.2)
Loss before income taxes	(10.6)	(4.0)	(15.7)	(4.4)
Income tax benefit (expense)	(0.1)	—	—	(0.1)
Net loss	(10.7)	(4.0)	(15.7)	(4.5)
Other comprehensive (loss)/income:				
Foreign currency translation (loss)/gain	0.7	(0.2)	0.2	0.1
Change in fair value of hedging instrument	2.4	—	0.3	—
Reclassification of gain on hedging instrument to comprehensive income	(2.6)	—	(1.1)	—
Actuarial (losses) gains on pension plan	(2.0)	3.0	(1.1)	4.3
Other comprehensive (loss)/income	(1.5)	2.8	(1.7)	4.4
Comprehensive loss	$ (12.2)	$ (1.2)	$ (17.4)	$ (0.1)
Net loss per common share – basic and diluted	$ (0.48)	$ (0.19)	$ (0.73)	$ (0.22)
Weighted average number of shares outstanding during the period – basic and diluted	22,193,955	20,860,591	21,583,648	20,859,711

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE PERIOD OCTOBER 1, 2018 TO JUNE 30, 2019
(in millions, except share data)
(Unaudited)

	Common stock		Additional paid in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance at October 1, 2018	**20,860,591**	**$ —**	**$ 328.5**	**$ 58.5**	**$ (399.5)**	**$ (12.5)**
Foreign currency translation adjustments	—	—	—	—	—	—
Actuarial losses on pension plan	—	—	—	(2.8)	—	(2.8)
Change in fair value of hedging instrument	—	—	—	2.6	—	2.6
Reclassification of gain on hedging instrument to comprehensive income	—	—	—	(2.4)	—	(2.4)
Shares issued upon net settlement of RSUs	9,806	—	—	—	—	—
Stock-based compensation expense	—	—	1.4	—	—	1.4
Net loss	—	—	—	—	(4.7)	(4.7)
Balance at December 31, 2018	**20,870,397**	**$ —**	**$ 329.9**	**$ 55.9**	**$ (404.2)**	**$ (18.4)**
Foreign currency translation adjustments	—	—	—	(0.5)	—	(0.5)
Actuarial gains on pension plan	—	—	—	0.9	—	0.9
Change in fair value of hedging instrument	—	—	—	(2.1)	—	(2.1)
Reclassification of gain on hedging instrument to comprehensive income	—	—	—	1.5	—	1.5
Shares issued on earnout	1,323,558	—	8.6	—	—	8.6
Stock-based compensation expense	—	—	1.7	—	—	1.7
Net loss	—	—	—	—	(5.0)	(5.0)
Balance at March 31, 2019	**22,193,955**	**$ —**	**$ 340.2**	**$ 55.7**	**$ (409.2)**	**$ (13.3)**
Foreign currency translation adjustments	—	—	—	0.7	—	0.7
Actuarial losses on pension plan	—	—	—	(2.0)	—	(2.0)
Change in fair value of hedging instrument	—	—	—	2.4	—	2.4
Reclassification of gain on hedging instrument to comprehensive income	—	—	—	(2.6)	—	(2.6)
Conversion of awards previously classified as derivatives	—	—	0.8	—	—	0.8
Stock-based compensation expense	—	—	2.1	—	—	2.1
Net loss	—	—	—	—	(10.7)	(10.7)
Balance at June 30, 2019	**22,193,955**	**$ —**	**$ 343.1**	**$ 54.2**	**$ (419.9)**	**$ (22.6)**

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(CONTINUED)
FOR THE PERIOD OCTOBER 1, 2017 TO JUNE 30, 2018
(in millions, except share data)
(Unaudited)

	Common stock		Additional paid in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' (deficit)
	Shares	Amount				
Balance at October 1, 2017	**20,402,602**	**$ —**	**$ 323.5**	**$ 53.1**	**$ (378.9)**	**$ (2.3)**
Foreign currency translation adjustments	—	—	—	0.1	—	0.1
Actuarial losses on pension plan	—	—	—	(2.0)	—	(2.0)
Shares issued on exercise of warrants	50	—	—	—	—	—
Shares issued upon cashless exercise of RSUs	445,723	—	(1.1)	—	—	(1.1)
Stock-based compensation expense	—	—	0.8	—	—	0.8
Reclassification of RSUs to derivative liability due to modification	—	—	(1.5)	—	—	(1.5)
Net loss	—	—	—	—	(4.2)	(4.2)
Balance as of December 31, 2017	**20,848,375**	**$ —**	**$ 321.7**	**$ 51.2**	**$ (383.1)**	**$ (10.2)**
Foreign currency translation adjustments	—	—	—	0.3	—	0.3
Actuarial gains on pension plan	—	—	—	1.3	—	1.3
Shares issued upon cashless exercise of RSUs	12,216	—	—	—	—	—
Stock-based compensation expense	—	—	1.0	—	—	1.0
Reclassification of RSUs from derivative liability due to stockholder approval of equity plan	—	—	2.8	—	—	2.8
Net loss	—	—	—	—	(0.5)	(0.5)
Balance as of March 31, 2018	**20,860,591**	**—**	**325.5**	**52.8**	**(383.6)**	**(5.3)**
Foreign currency translation adjustments	—	—	—	(0.2)	—	(0.2)
Actuarial gains on pension plan	—	—	—	3.0	—	3.0
Stock-based compensation expense	—	—	1.5	—	—	1.5
Net loss	—	—	—	—	(4.0)	(4.0)
Balance as of June 30, 2018	**20,860,591**	**$ —**	**$ 327.0**	**$ 55.6**	**$ (387.6)**	**$ (5.0)**

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net loss	$ (15.7)	$ (4.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	18.8	21.7
Stock-based compensation expense	4.4	2.7
Change in fair value of derivative liability	0.1	(1.5)
Change in fair value of earnout liability	2.3	(3.1)
Foreign currency translation on senior bank debt	0.3	—
Foreign currency translation on cross currency swaps	(0.6)	—
Non-cash interest expense relating to senior debt	0.9	3.9
Changes in assets and liabilities:		
Accounts receivable	0.8	(5.5)
Inventory	(0.5)	(2.1)
Prepaid expenses and other assets	4.5	2.8
Corporate tax and other current taxes payable	(0.5)	(0.8)
Accounts payable	4.4	3.8
Other current liabilities	—	—
Deferred revenues and customer prepayment	(2.1)	3.9
Accrued expenses	2.4	(0.7)
Other long-term liabilities	0.2	(2.7)
Net cash provided by operating activities	**19.7**	**17.9**
Cash flows from investing activities:		
Purchases of property and equipment	(2.0)	(12.0)
Purchases of capital software	(7.8)	(9.3)
Net cash used in investing activities	**(9.8)**	**(21.3)**
Cash flows from financing activities:		
Repayments of capital leases	(0.3)	(0.3)
Proceeds from issuance of revolver and long-term debt	9.3	3.2
Net cash provided by financing activities	**9.0**	**2.9**
Effect of exchange rate changes on cash	(1.2)	(0.3)
Net increase in cash	**17.7**	**(0.8)**
Cash, beginning of period	16.0	11.0
Cash, end of period	**$ 33.7**	**$ 10.2**
Supplemental cash flow disclosures		
Cash paid during the period for interest	$ 8.2	$ 6.2
Cash paid during the period for income taxes	$ —	$ —
Supplemental disclosure of noncash investing and financing activities		
Additional paid in capital reclassified from derivative liability	$ 0.8	$ 2.8

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019
(Unaudited)

1. Nature of Operations, Management's Plans and Summary of Significant Accounting Policies

Company Description and Nature of Operations

Inspired Entertainment, Inc. (the "Company," "we," "our," and "us") is a global business-to-business gaming technology company, supplying Server Based Gaming ("SBG") and Virtual Sports (which includes Interactive) systems to regulated lottery, betting and gaming operators worldwide through an "omni-channel" distribution strategy. We provide end-to-end digital gaming solutions on our proprietary and secure network, which accommodates a wide range of devices, including land-based gaming machine terminals, mobile devices such as smartphones and tablets and online computer and social applications.

The Company was formed in Delaware on May 30, 2014 under the name Hydra Industries Acquisition Corp. ("Hydra") as a "blank check company" for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, recapitalization or other similar business transaction, one or more operating businesses or assets. On December 23, 2016 (the "Closing Date"), the Company consummated a business combination by acquiring Inspired Gaming Group ("Inspired") pursuant to a share sale agreement dated as of July 13, 2016 (the "Sale Agreement"). Pursuant to the Sale Agreement, the Company acquired all of the outstanding equity and shareholder loan notes of Inspired. The transaction was accounted for as a reverse merger where Inspired was the acquirer and Hydra was the acquired company. We refer to the acquisition and the other transactions contemplated by the Sale Agreement, collectively, as the "Business Combination" or the "Merger."

Management Liquidity Plans

As of June 30, 2019, the Company's cash on hand was $33.7 million and the Company had working capital of $11.3 million. As of June 30, 2019, $2.9 million of our cash on hand had arisen from our operations in Greece and was being held in local accounts. In the ordinary course of business, we seek, from time to time, to transfer funds earned in Greece to our accounts outside of Greece. However, Greece imposes capital controls that can delay or prevent the flow of capital out of the country. The Company recorded net losses of $10.7 million and $4.0 million for the six months ended June 30, 2019 and 2018, respectively. The net losses arose principally from non-cash items, including stock-based compensation and the change in the value of the earnout liability, and, in the 2018 period, from payment-in-kind interest on the previous senior debt that is no longer a liability. Historically, the Company has generally had positive cash flows from operating activities and has relied on a combination of cash flows provided by operations and the incurrence of debt and/or the refinancing of existing debt to fund its obligations. Working capital of $11.3 million includes a non-cash settled item of $10.2 million of deferred income. Management currently believes that the Company's cash balances on hand, cash flows expected to be generated from operations, ability to control and defer capital projects and amounts available from the Company's external borrowings will be sufficient to fund the Company's net cash requirements through August 2020.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Certain information or footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion, however, that the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

On September 24, 2018, the Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31 commencing with the year ending December 31, 2019. As such, our last completed fiscal year ended on September 30, 2018, the three-month period from October 1, 2018 to December 31, 2018 was a transitional period and the six-month period from January 1, 2019 to June 30, 2019 is the first half of fiscal 2019.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the periods ended September 30, 2018 and 2017. The financial information as of September 30, 2018 is derived from the audited consolidated financial statements presented in the Company’s Annual Report on Form 10-K filed with the SEC on December 10, 2018. The interim results for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019 or for any future interim periods.

Principles of Consolidation

All monetary values set forth in these unaudited interim condensed consolidated financial statements are in US Dollars (“USD”) unless otherwise stated herein. The accompanying unaudited interim condensed consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency Translation

For most of our operations, the British pound (“GBP”) is our functional currency. Our reporting currency is the USD. We also have operations where the local currency is the functional currency, including our operations in mainland Europe and South America. Assets and liabilities of foreign operations are translated at period-end rates of exchange, equity is translated at historical rates of exchange and results of operations are translated at the average rates of exchange for the period. Gains or losses resulting from translating the foreign currency financial statements are recorded as a separate component of accumulated other comprehensive loss in stockholders’ deficit. Gains or losses resulting from foreign currency transactions are included in selling, general and administrative expenses, interest income (expense) and other finance (costs) income in the consolidated statements of operations and comprehensive loss.

Use of Estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates these estimates, including those related to the revenue recognition for contracts involving software and non-software elements, allowance for doubtful accounts, inventory reserve for net realizable value, currency swaps, valuation of hedging activities, goodwill and intangible assets, useful lives of long-lived assets, stock-based compensation, valuation allowances on deferred taxes, earnout liability, pension liability, commitments and contingencies and litigation, among others. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. We regularly evaluate these significant factors and make adjustments when facts and circumstances dictate. Actual results may differ from these estimates.

Revenue Recognition

The Company adopted Accounting Standards Codification (“ASC”) 606 – Revenue from Contracts with Customers” (“ASC 606") as of January 1, 2019 using the modified retrospective method. This method allows the Company to apply ASC 606 to new contracts entered into after January 1, 2019, and to its existing contracts for which revenue earned through December 31, 2018 has been recognized under the guidance in effect prior to the effective date of ASC 606. The revenue recognition processes the Company applied prior to adoption of ASC 606 align with the recognition and measurement guidance of the new standard, therefore adoption of ASC 606 did not require a cumulative adjustment to opening equity.

Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under the standard, a contract's transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps:

1. identify the contracts with a customer;

2. identify the performance obligations within the contract, including whether they are distinct and capable of being distinct in the context of the contract;

3. determine the transaction price;

4. allocate the transaction price to the performance obligations in the contract; and

5. recognize revenue when, or as, the Company satisfies each performance obligation.

Step 1 – Identify the contract

The Company identifies contracts with its customers when all parties have approved the contract and are committed to perform their respective obligations, when each party's rights and the payment terms regarding the goods or services to be transferred can be identified. The contract must also have commercial substance, and it must be probable that the Company will collect the consideration to which it will be entitled.

Contracts entered into at or near the same time with the same customer or related parties of the customer are accounted for as one contract if any of the following criteria are met:

a. Contracts were negotiated as a single commercial package (including whether a contract would be loss-making without taking into account the consideration received under another contract)

b. Consideration in one contract depends on the other contract

c. Goods or services (or some of the goods or services) are a single performance obligation.

Step 2 – Identify performance obligations

Performance obligations are identified by considering whether a good or service is distinct. The Company considers a good or service to be distinct only when the customer can benefit from it either on its own or together with other resources that are readily available, and when the promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The Company applies the series guidance to its performance obligations where the following criteria apply:

a. Each distinct good or service in the series meets the criteria to be a performance obligation satisfied over time.

b. The same method would be used to measure progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Step 3 – Determine the transaction price

The Company considers all amounts to which it has rights in exchange for the goods or services transferred in determining the transaction price. This includes fixed and variable consideration. Typically, consideration is stated in the contract with the customer.

The Company assesses usage-based fees to determine whether they qualify as variable consideration. It also considers the impact of any liquidated damages clauses or service level agreements.

Where the Company's performance obligations are determined to be a series, variable consideration is not estimated upfront in accordance with the exception allowed by ASC 606.

Where non-refundable upfront fees are included in the Company's contracts with customer, the Company considers whether or not they represent payment for a transferred good or service. Where they represent payment for future goods or services, the Company further considers whether they represent a material right.

Step 4 – Allocate the transaction price

The Company allocates a transaction price to each performance obligation based on the relative standalone selling prices of the goods or services being provided. Where a contract includes multiple performance obligations, the Company determines the standalone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those standalone selling prices. Where possible, the Company uses the price charged for the good or service to other customers in similar circumstances as evidence of standalone selling price. Where this is not possible, the standalone selling price is estimated by experienced management using the best available judgement.

With respect to performance obligations that are considered to be a series, where appropriate and where the required criteria are met, variable consideration is allocated entirely to a distinct good or service that is part of a series.

Step 5 – Recognize revenue

The Company recognizes revenue over time for performance obligations that meet one of the following criteria:

a. The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

b. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

c. The Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date

Revenue for the Company's remaining performance obligations that do not meet one of the above criteria is recognized at the point at which the customer obtains control of the good or service.

Server Based Gaming Revenue

Revenue from SBG terminals, access to our content and SBG platform, including electronic table gaming products is recognized in accordance with the criteria set forth in ASC 606 and is usually based upon a contracted percentage of the operator's net winnings from the terminals' daily use. Where this is not the case, revenue is based upon a fixed daily or weekly usage fee. We recognize revenue from these arrangements in accordance with the series guidance over time on a daily basis over the term of the arrangement, or when not specified over the expected customer relationship period. Performance obligations under these arrangements may include the delivery and installation of our SBG terminals for use over a term, as well as service obligations related to hardware repairs and server based content and maintenance. Consideration with respect to these performance obligations typically takes the form of usage based fees, billed at the end of a set period (usually monthly) and due typically 30 days from the date of the invoice.

We sometimes bill for SBG arrangements up front in order to help fund our working capital and development requirements, or at the request of a customer. Upfront fees on SBG arrangements are deferred and recognized ratably over time, or when not specified over the expected customer relationship period, where they represent payment for future goods and services. In the case where we receive upfront fees pursuant to which there are no further obligations and no undelivered elements, we will recognize the upfront fees upon delivery. Upfront fees are normally billed upon signing of the relevant agreement, and become due and payable at set times thereafter. Hardware sales take the form of a transfer of ownership of our developed gaming terminals, and are recognized at a point in time upon delivery as they are considered to meet the required criteria to be considered distinct. Payment for hardware sales is typically due a set number of days after delivery.

SBG arrangements typically include service level agreements, consisting of a specified amount of 'uptime' with financial penalties for breaches in excess of specified levels.

Virtual Sports Revenue

Revenue from licensing of our gaming software is recognized in accordance with the criteria set forth in ASC 606. Virtual sports retail revenue, which includes the provision of virtual sports content and services to retail betting outlets, and virtual sports online and mobile revenue, which includes the provision of virtual sports content and services to mobile and online operators, is based upon a contracted percentage of the operator's net winnings or a fixed rental fee. We recognize revenue for these fees over time on a daily or weekly basis in accordance with the series guidance over the term of the arrangement. Consideration with respect to these performance obligations typically takes the form of usage based fees, billed at the end of a set period (usually monthly) and due typically 30 days from the date of the invoice.

These arrangements also typically include a perpetual license billed up front, granted to the customer for access to our gaming platform and content. As these up front bills represent payment for future services, revenue from the licensing of perpetual licenses is recognized ratably over time, or when not specified, over the expected customer relationship period. Upfront fees are normally billed upon signing of the relevant agreement, and become due and payable at set times thereafter.

Revenue from the development of bespoke games licensed on a perpetual basis to mobile and online operators is recognized at a point in time on delivery and acceptance by the customer. We have no ongoing service obligations subsequent to customer acceptance of our bespoke games, and they meet the criteria to be considered as distinct. Payment for bespoke games is typically due a set number of days after delivery.

Virtual Sports arrangements typically include service level agreements, consisting of a specified amount of 'uptime' with financial penalties for breaches in excess of specified levels.

Disaggregation of revenue

Information on disaggregation of revenue is included in Note 25 "Segment Reporting and Geographic Information."

2. Accounts Receivable

Accounts receivable consist of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Trade receivables	$ 13.1	$ 17.8
Less: long-term receivable recorded in other assets	(1.8)	(2.2)
Other receivables	0.1	0.1
Allowance for doubtful accounts	(0.7)	(1.4)
Total accounts receivable, net	$ 10.7	$ 14.3

3. Inventory

Inventory consists of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Component parts	$ 3.7	$ 3.6
Finished goods	1.9	1.6
Total inventories	$ 5.6	$ 5.2

Component parts include parts for gaming terminals. Included in component parts are reserves for excess and slow-moving inventory of $0.2 million and $0.5 million as of June 30, 2019 and September 30, 2018, respectively. Our finished goods inventory primarily consists of gaming terminals which are ready for sale.

4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Prepaid expenses and other assets	$ 4.6	$ 5.0
Unbilled accounts receivable	7.2	10.8
Total prepaid expenses and other assets	$ 11.8	$ 15.8

5. Property and Equipment, net

	June 30, 2019	September 30, 2018
	(in millions)	
Short-term leasehold property	$ 0.3	$ 0.4
Video lottery terminals	116.7	121.7
Construction in progress	0.3	—
Computer equipment	8.6	8.7
Plant and machinery	1.9	2.5
	127.8	133.3
Less: accumulated depreciation and amortization	(96.2)	(87.6)
	$ 31.6	$ 45.7

Depreciation and amortization expense amounted to $4.4 million and $5.4 million for the three months ended June 30, 2019 and 2018, respectively, and $9.2 million and $10.7 million for the six months ended June 30, 2019 and 2018, respectively.

6. Software Development Costs, net

Software development costs, net consisted of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Software development costs	$ 109.3	$ 100.9
Less: accumulated amortization	(71.2)	(60.9)
	$ 38.1	$ 40.0

During the three months ended June 30, 2019 and 2018, the Company capitalized $3.7 million and $4.4 million of software development costs, respectively. During the six months ended June 30, 2019 and 2018, the Company capitalized $7.4 million and $8.8 million of software development costs, respectively. Amounts in the above table include $1.0 million and $1.3 million of internal use software at June 30, 2019 and September 30, 2018, respectively.

The total amount of software costs amortized was $3.9 million and $4.4 million for the three months ended June 30, 2019 and 2018, respectively, and $8.0 million and $9.0 million for the six months ended June 30, 2019 and 2018, respectively. Software costs written down to net realizable value amounted to $0.0 million for the three months ended June 30, 2019 and 2018, respectively, and $0.0 million and $0.3 million for the six months ended June 30, 2019 and 2018, respectively. The weighted average amortization period was 3.1 years for the three and six months ended June 30, 2019 and 3.2 years for the three and six months ended June 30, 2018.

The estimated software amortization expense for the years ending December 31 are as follows:

Year ending December 31, (in millions)	
2019 (six months)	$ 7.7
2020	14.1
2021	9.2
2022	4.4
2023	2.0
Thereafter	0.7
Total	$ 38.1

7. Intangible Assets and Goodwill

The following tables present certain information regarding our intangible assets. Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives of ten years with no estimated residual values, which materially approximates the expected pattern of use.

	June 30, 2019	September 30, 2018
	(in millions)	
Trademarks	$ 17.2	$ 17.6
Customer relationships	14.7	15.1
	31.9	32.7
Less: accumulated amortization	(28.7)	(27.0)
	$ 3.2	$ 5.7

Aggregate intangible asset amortization expense amounted to $0.8 million and $0.9 million for the three months ended June 30, 2019 and 2018, respectively, and $1.6 million and $1.7 million for the six months ended June 30, 2019 and 2018, respectively.

The estimated intangible asset amortization expense for the years ending December 31 are as follows:

Year ending December 31, (in millions)	
2019 (six months)	$ 1.6
2020	1.6
Total	$ 3.2

Goodwill

The difference in the carrying amount of goodwill at June 30, 2019 and September 30, 2018 (amounting to $1.1 million), as reported in the accompanying unaudited interim condensed consolidated balance sheets, is attributable to foreign currency translation adjustments.

8. Other Assets

Other assets consist of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Pension surplus	$ 2.7	$ 5.3
Long term receivables	1.8	2.2
Long term prepaid expenses and other assets	3.3	4.6
	$ 7.8	$ 12.1

9. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Direct costs of sales	$ 3.3	$ 4.4
Payroll and related costs	4.3	3.1
Accrued corporate cost expenses	0.8	3.2
Asset retirement obligations	1.0	0.5
Contract termination costs	0.2	—
Interest payable - cash	0.1	0.1
Other creditors	5.1	3.0
	$ 14.8	$ 14.3

10. Contract Liabilities and Other Disclosures

The following table summarizes the changes in contract liabilities:

	Deferred Income
	(in millions)
Balance at October 1, 2018	$ (33.1)
Revenue recognized	9.5
Revenue deferred	(5.6)
Foreign currency translation adjustments	0.6
Balance at June 30, 2019	$ (28.6)

	Deferred Income
	(in millions)
Balance at October 1, 2017	$ (27.3)
Revenue recognized	10.6
Revenue deferred	(16.9)
Foreign currency translation adjustments	0.5
Balance at September 30, 2018	$ (33.1)

Revenue recognized that was included in the deferred income balance at the beginning of the period amounted to $7.3 million and $7.7 million for the six months ended June 30, 2019 and the year ended September 30, 2018, respectively.

The following table summarizes contract related balances (other than deferred income disclosed above):

	Accounts Receivable	Unbilled Accounts Receivable	Customer Prepayments and Deposits
		(in millions)	
At October 1, 2018	$ 17.8	$ 10.8	$ (3.7)
At June 30, 2019	13.1	7.2	(5.1)

	Accounts Receivable	Unbilled Accounts Receivable	Customer Prepayments and Deposits
		(in millions)	
At October 1, 2017	$ 25.5	$ 9.5	$ (4.3)
At September 30, 2018	17.8	10.8	(3.7)

11. Other Liabilities

Other liabilities consist of the following:

	June 30, 2019	September 30, 2018
	(in millions)	
Customer prepayments and deposits	$ 5.1	$ 3.7
Fair value of hedging instrument	0.5	0.2
Total other liabilities, current	5.6	3.9
Other payables, net of current portion	—	0.5
Asset retirement obligations	0.3	0.4
Senior debt exit premium	4.2	4.2
Total other liabilities, long-term	4.5	5.1
	$ 10.1	$ 9.0

12. Long Term and Other Debt

2018 Refinancing

On August 13, 2018, the Company and certain of its subsidiaries entered into a series of transactions that effected the refinancing of the external borrowings of the Company and its subsidiaries, replacing our senior term and revolving facilities with senior notes of $140.0 million and a revolving credit facility of £7.5 million. The senior notes, which were issued under a Note Purchase Agreement and Guaranty (the "Note Purchase Agreement"), have a 5-year duration and carry a cash interest rate of 9% plus 3-month LIBOR, and the revolving credit facility has a 3-year duration and carries a cash interest rate on any utilization at 4% plus 3-month LIBOR, with any unutilized amount carrying a 1.4% cash interest cost. In connection with the refinancing, the Company also entered into a 3-year, fixed-rate, cross-currency swap (see Note 13). For additional information regarding the 2018 refinancing and related agreements, see Note 12 in our 2018 10-K.

During the six months ended June 30, 2019, the Company borrowed the full amount available under the revolving credit facility, for an aggregate amount outstanding of $9.3 million at June 30, 2019, which is included in current portion of long-term debt in the accompanying condensed balance sheet.

Outstanding Debt and Capital Leases

The following reflects outstanding debt and capital leases as of the dates indicated below:

	Principal	Unamortized deferred financing charge	Book value, June 30, 2019
		(in millions)	
Senior bank debt	$ 149.3	$ (7.6)	$ 141.7
Capital leases and hire purchase contract	0.2	—	0.2
Total long-term debt outstanding	149.5	(7.6)	141.9
Less: current portion of long-term debt	(9.5)	—	(9.5)
Long-term debt, excluding current portion	$ 140.0	$ (7.6)	$ 132.4

	Principal	Unamortized deferred financing charge	Book value, September 30, 2018
		(in millions)	
Senior bank debt	$ 140.0	$ (8.7)	$ 131.3
Capital leases and hire purchase contract	0.5	—	0.5
Total long-term debt outstanding	140.5	(8.7)	$ 131.8
Less: current portion of long-term debt	(0.5)	—	(0.5)
Long-term debt, excluding current portion	$ 140.0	$ (8.7)	$ 131.3

The Company is in compliance with all relevant financial covenants and the long term debt portion is correctly classified as such in line with the underlying agreements.

Long term debt as of June 30, 2019 matures as follows:

Fiscal period:	Senior bank debt	Capital leases and hire purchase contract	Total
		(in millions)	
2019	$ 9.3	$ 0.2	$ 9.5
2020	—	—	—
2021	—	—	—
2022	—	—	—
2023	140.0	—	140.0
Total	$ 149.3	$ 0.2	$ 149.5

13. Derivatives and Hedging Activities

In connection with the 2018 refinancing (see Note 12), the Company entered into a 3-year, fixed-rate, cross-currency swap with Nomura Global Financial Products Inc. which swaps the principal and interest payments that will be payable in USD under the Note Purchase Agreement to Euros (“EUR”), in part, and GBP, in part. Specifically, with respect to the principal payments 1/3 of the payments will be swapped from USD to EUR and 2/3 of the payments from USD to GBP. Additionally, with respect to the interest payments 1/3 will be swapped from USD to GBP and 2/3 from USD to EUR. The swap provides for a foreign exchange rate of $1.13935 USD per €1 EUR and $1.27565 USD per £1 GBP.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s borrowings.

Certain of the Company’s foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of the Company’s cash receipts and payments in terms of the Company’s functional currency. The Company enters into derivative financial instruments to protect the value or fix the amount of certain liabilities in terms of its functional currency, GBP.

Hedges of Multiple Risks

The Company has variable-rate borrowings denominated in currencies other than its functional currency. As a result, the Company is exposed to fluctuations in both the underlying variable interest rate and the foreign currency of the borrowing against its functional currency, GBP. The Company uses derivatives including cross-currency interest rate swaps to manage its exposure to fluctuations in the variable borrowing rate and the GBP-USD exchange rate. Cross-currency interest rate swaps involve exchanging fixed rate interest payments for floating rate interest receipts both of which will occur at the GBP-USD forward exchange rates in effect upon entering into the instrument. The Company designates these derivatives as cash flow hedges of both interest rate and foreign exchange risks.

For derivatives designated and that qualify as cash flow hedges of both interest rate risk and foreign exchange risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified in the periods during which the hedged transaction affects earnings within the same income statement line item as the earnings effect of the hedged transaction. The Company estimates that during the year ended December 31, 2019, $1.5 million will be reclassified as a reduction to interest expense.

As of June 30, 2019 and September 30, 2018, the Company had the following outstanding derivatives designated as cash flow hedges that were used to hedge both interest rate risk and foreign exchange risk:

Foreign Currency Derivative	Number of Instruments	Pay Fixed Notional		Receive Floating Notional	
			(in millions)		
Cross currency interest rate swaps	1	GBP	36.6	USD	46.7

Non-designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

As of June 30, 2019 and September 30, 2018, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships:

Foreign Currency Derivative	Number of Instruments	Pay Fixed Notional		Receive Floating Notional	
		(in millions)		(in millions)	
Cross currency interest rate swaps	1	EUR	81.9	USD	93.3

The table below presents the fair value of the Company's derivative financial instruments as well as their classification in the consolidated balance sheet as of June 30, 2019.

	Balance Sheet Classification	Asset Derivatives Fair Value	Balance Sheet Classification	Liability Derivatives Fair Value
		(in millions)		(in millions)
Derivatives designated as hedging instruments:				
Interest Rate and Foreign Exchange Products	Fair Value of Hedging Instruments	$ 0.5	Derivative Liability	$ (0.8)
Total derivatives designated as hedging instruments		$ 0.5		$ (0.8)
Derivatives not designated as hedging instruments:				
Interest Rate and Foreign Exchange Products	Fair Value of Hedging Instruments	$ —	Derivative Liability	$ (3.8)
Total derivatives not designated as hedging instruments		$ —		$ (3.8)

The table below presents the fair value of the Company's derivative financial instruments as well as their classification in the consolidated balance sheet as of September 30, 2018.

	Balance Sheet Classification	Asset Derivatives Fair Value	Balance Sheet Classification	Liability Derivatives Fair Value
		(in millions)		(in millions)
Derivatives designated as hedging instruments:				
Interest Rate and Foreign Exchange Products	Fair Value of Hedging Instruments	$ 0.8	Derivative Liability	$ (3.4)
Total derivatives designated as hedging instruments		$ 0.8		$ (3.4)
Derivatives not designated as hedging instruments:				
Interest Rate and Foreign Exchange Products	Fair Value of Hedging Instruments	$ —	Derivative Liability	$ (4.4)
Total derivatives not designated as hedging instruments		$ —		$ (4.4)

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income as of June 30, 2019.

	Amount of Gain Recognized in Other Comprehensive Income on Derivative (in millions)			Location of Gain Reclassified from Accumulated Other Comprehensive Income into Income (in millions)
Interest Rate and Foreign Exchange Products	$	0.3	Interest Expense	$ 0.9
			Foreign Currency Remeasurement	0.2
Total	$	0.3		$ 1.1

There were no effects of fair value and cash flow hedge accounting on accumulated other comprehensive income as of June 30, 2018.

The table below presents the effect of the Company’s derivative financial instruments on the consolidated income statements as of June 30, 2019.

	Interest Expense (in millions)	Foreign Currency Remeasurement (in millions)
Total amounts of income and expense line items presented in the statement of operations and comprehensive loss in which the effects of fair value or cash flow hedges are recorded	$ 8.5	$ (0.3)
Gain/(loss) on cash flow hedging relationships in Subtopic 815-20	$ 0.9	$ 0.2

There were no effects of the Company’s derivative financial instruments on the consolidated income statements as of June 30, 2018.

The table below presents the effect of the Company’s derivative financial instruments that are not designated as hedging instruments in the consolidated income statement as of June 30, 2019.

Derivatives Not Designated as Hedging Instruments under Subtopic 815-20	**Location of Income Recognized in Income on Derivative**	**Amount of Income Recognized in Income on Derivative** (in millions)
Interest Rate and Foreign Exchange Products	Change in fair value of derivative liability	$ (0.1)

There were no effects of the Company’s derivative financial instruments that are not designated as hedging instruments in the consolidated income statement as of June 30, 2018.

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of June 30, 2019 and September 30, 2018. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the consolidated balance sheet.

The ISDA Master Agreement between Gaming Acquisitions Limited and Nomura Global Financial Products, Inc. is documented using the 2002 Form and the ISDA standard set-off provision in Section 6(f) of the ISDA Master Agreement apply to both parties and is only modified to include Affiliates of the Payee. There is no CSA and thus there is no collateral posting. The only other security for the ISDA include a guaranty of Nomura's obligations from Nomura Holdings, Inc. and with respect to Gaming Acquisitions Limited, its obligations under the ISDA are cross-collateralized with the debt obligations under the Credit Agreement in the same pool of collateral that supports the debt obligations.

Offsetting of Derivative Assets

June 30, 2019

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
	(in millions)					
Fair value of hedging instrument	$ 0.5	$ —	$ 0.5	$ —	$ —	$ —

Offsetting of Derivative Liabilities

June 30, 2019

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
	(in millions)					
Fair value of hedging instrument	$ 4.6	$ —	$ 4.6	$ —	$ —	$ —

Offsetting of Derivative Assets

September 30, 2018

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
	(in millions)					
Fair value of hedging instrument	$ 0.8	$ —	$ 0.8	$ —	$ —	$ —

Offsetting of Derivative Liabilities

September 30, 2018

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
	(in millions)					
Fair value of hedging instrument	$ 7.8	$ —	$ 7.8	$ —	$ —	$ —

Credit-risk-related Contingent Features

The Company has entered into an industry standard ISDA Master Agreement, with a negotiated Scheduled thereto (the "ISDA Agreement"), with the counterparty to its derivative transactions and which ISDA Agreement sets forth various provisions which govern the trading relationship between the Company and its counterparty. Such provisions include certain events which, if triggered by either party, may give rise to an acceleration of the ISDA Agreement, thus triggering the exchange of a breakage payment between the parties.

The ISDA Agreement with the Company's derivative counterparty contains a provision where the Company could be declared in default on its derivative obligations if, among others, its repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. The ISDA Agreement can also be accelerated if the Company's creditworthiness becomes materially weaker as the result of a merger, change of control or substantial change in capital structure or if the Company's obligations under the ISDA Agreement are no longer secured with the underlying indebtedness.

As of June 30, 2019 and September 30, 2018, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to the ISDA Agreements was ($4.1) and ($7.0), respectively. As of June 30, 2019, the Company has not posted any collateral related to the ISDA Agreement, as no collateral is required under the terms of such ISDA Agreement. If the Company had breached any of the provision under the ISDA Agreement which resulted in an acceleration of the ISDA Agreement at June 30, 2019, it could have been required to settle its obligations under the ISDA Agreement at its termination value of $5.6.

14. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset and liability in an orderly transaction between market participants at the measurement date. We estimate the fair value of our assets and liabilities utilizing an established three-level hierarchy. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

Level 3: Unobservable inputs that are supported by little or no market activity that are significant to the fair value of the asset or liability. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that are unable to be corroborated with observable market data.

The fair value of our financial assets and liabilities is determined by reference to market data and other valuation techniques as appropriate. We believe the fair value of our financial instruments, which are principally cash, accounts receivable, prepaid expenses and other current assets, accounts payable and other long term liabilities, approximates their recorded values.

For each period, derivative financial instrument assets and liabilities measured at fair value on a recurring basis are included in the financial statements as per the table below.

	Level	June 30, 2019	September 30, 2018
		(in millions)	
Earnout liability (see Note 15)	3	$ —	$ 8.0
Derivative liability (see Notes 13 and 16)	2	$ 4.0	$ 7.8
Long term receivable (included in other assets)	2	$ 1.8	$ 2.2

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's principal financial officer, who reports to the principal executive officer, determines its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Principal Financial Officer and approved by the Principal Executive Officer.

Level 3 financial liabilities consist of the earnout liability for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate (see Note 15).

At June 30, 2019 and September 30, 2018, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

15. Earnout Liability

An earnout payment of up to 2,500,000 shares of the Company's common stock, subject to certain customary anti-dilution adjustments (the "Earnout Consideration"), was payable pursuant to the Sale Agreement to the previous owners of Inspired based on the financial performance of the Company's businesses in six specific countries, China, Colombia, Greece, Norway, Spain and Ukraine (collectively, the "Earnout Jurisdictions"), as measured by earnings before interest, taxes, depreciation and amortization ("EBITDA") for the twelve months ended September 30, 2018 (the "Earnout Period"), with the maximum earnout payment of 2,500,000 shares issuable if such EBITDA results with respect to the Earnout Jurisdictions was equal to or greater than £15,000. Based on the EBITDA results for such fiscal year with respect to the Earnout Jurisdictions, the Company issued 1,323,558 shares of common stock as Earnout Consideration in March 2019, resulting in an aggregate amount of $8.6 million recorded upon the settlement of the earnout liability, with a corresponding credit to stockholders' deficit.

The following table provides a reconciliation of the beginning and ending balances for the earnout liability measured using significant unobservable inputs (Level 3):

	(in millions)
Balance – September 30, 2018	$ 8.0
Change in fair value of earnout liability	0.6
Settlement of earnout liability	(8.6)
Balance – June 30, 2019	$ —

All movements in the balance during the six months ended June 30, 2019 were due to movements in the price of the Company's common stock

16. Derivative Liability

The Company’s 2018 Omnibus Incentive Plan (the “2018 Plan”) was adopted by the Company’s Board of Directors in September 2018 subject to approval by the Company’s stockholders, which was obtained in May 2019. Initial awards covering an aggregate of 542,770 restricted stock units (“RSUs”) were approved under the 2018 Plan with respect to fiscal 2018 to members of management and other participants with a three-year vesting schedule (i.e., one-third vesting on each of December 31, 2019, 2020 and 2021). These awards, which were subject to cancellation in the event stockholders did not approve the 2018 Plan during 2019, were initially classified as a derivative liability due to the grant terms containing a commitment by the Company to make a liquidated damages payment to the participants in cash (with respect to the value of one-third of the award) in the event stockholders did not approve the 2018 Plan by the first scheduled vesting date. Such obligation was eliminated upon stockholder approval of the 2018 Plan being obtained, which resulted in the liability being reclassified to additional paid in capital at the fair value amount of $0.8 million.

See Note 13, “Derivatives and Hedging Activities,” for a discussion of the Company’s cross-currency swap.

17. Stock-Based Compensation

The Company’s stock-based compensation plans authorize awards of RSUs, stock options and other equity-related awards. In May 2019, in conjunction with the Company’s stockholders approving the 2018 Plan, which authorizes a total of 2,550,000 shares to be issued pursuant to awards thereunder, the balances available for awards under the Company’s predecessor plans (i.e., the 2016 Long-Term Incentive Plan and the Second Long-Term Incentive Plan) (collectively, the “Prior Plans”) were terminated. Although outstanding awards under the Prior Plans remain governed by the terms of the Prior Plans, no new awards will be granted or become available for grant under the Prior Plans.

Awards granted under the 2018 Plan prior to stockholder approval being obtained in May 2019 consisted of: (1) the 542,770 RSUs approved for management and other participants with respect to fiscal 2018 as to which the contingent cash-settlement feature lapsed upon approval of the 2018 Plan by stockholders (see Note 16, “Derivative Liability”) and (2) 572,346 RSUs approved for management and other participants with respect to fiscal 2019 comprised of two components: (i) 50% represent performance-based target RSUs that require both attainment of Company performance criteria for 2019 and the participants remaining employed for a three-year service period; and (ii) 50% represent service-based RSUs that vest over a period of three years. In addition, an aggregate of 86,500 RSUs were awarded during the quarter ended June 30, 2019 (following approval of the 2018 Plan by stockholders) as new hire or special recognition grants.

As of June 30, 2019, there were (i) 2,489,197 shares subject to outstanding awards under the Prior Plans, including 1,092,633 shares subject to market-price vesting conditions, and (ii) 1,201,616 shares subject to outstanding awards under the 2018 Plan, including 286,181 shares subject to performance-based target awards as to which the number that ultimately may vest would range from 0% to 200% based on the performance level attained. As of June 30, 2019, there were 1,348,384 shares available for new awards under the 2018 Plan (or 1,062,203 shares if we reflect inclusion of performance-based awards at the maximum level of performance) and no shares available for new awards under the Prior Plans. All awards consist of RSUs and Restricted Stock.

The Company also has an employee stock purchase plan (“ESPP”) that authorizes the issuance of up to an aggregate of 500,000 shares of common stock pursuant to purchases thereunder by employees. The ESPP, which was approved by stockholders in July 2017, is administered by the Compensation Committee which has discretion to designate the length of offering periods and other terms subject to the requirements of the ESPP. The Company began a twelve-month offering period under the ESPP on June 3, 2019 that authorizes employees to contribute up to 10% of their base compensation to purchase a maximum of 1,000 shares. The shares will be purchased on the last day of the offering period at a discounted price that will equal to 85% of the lower of: (i) the closing price at the beginning of the offering period and (ii) the closing price at the end of the offering period. The Company estimates that approximately 10,000 shares will be purchased during this offering period. As of June 30, 2019, a total of 475,400 shares remain available for purchase under the ESPP.

A summary of the Company’s RSUs activity during the nine month period ended June 30, 2019 is as follows:

	Number of Shares
Unvested Outstanding at September 30, 2018	2,272,261
Granted	721,522
Forfeited	(13,202)
Vested	(39,053)
Unvested Outstanding at June 30, 2019	2,941,528

In addition, during the nine months ended June 30, 2019, a total of 9,806 shares were issued and 1,059 shares withheld for taxes in connection with the net settlement of awards of RSUs.

Stock-based compensation is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period.

The Company recognized stock-based compensation expense for Restricted Stock and RSU's amounting to $2.3 million and $1.5 for the three months ended June 30, 2019 and 2018, respectively, and $4.4 million and 2.7 million for the six months ended June 30, 2019 and 2018, respectively.

18. Accumulated Other Comprehensive Loss (Income)

The accumulated balances for each classification of comprehensive loss (income) are presented below:

	Foreign Currency Translation Adjustments	Change in Fair Value of Hedging Instrument	Unrecognized Pension Benefit Costs	Accumulated Other Comprehensive (Income)
	(in millions)			
Balance at September 30, 2018	$ (78.9)	$ 0.1	$ 20.3	$ (58.5)
Change during the period	0.5	0.4	1.9	2.8
Balance at March 31, 2019	(78.4)	0.5	22.2	(55.7)
Change during the period	(0.7)	0.2	2.0	1.5
Balance at June 30, 2019	$ (79.1)	$ 0.7	$ 24.2	$ (54.2)

19. Net Loss per Share

Basic loss per share ("EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential shares of common stock outstanding during the period, including stock options, restricted stock, RSUs and warrants, using the treasury stock method, and convertible debt or convertible preferred stock, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

The computation of diluted EPS excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Three and Six Months Ended June 30,	
	2019	2018
Earnout Shares	—	2,500,000
RSUs	3,066,697	1,759,164
Unvested Restricted Stock	624,116	624,116
Stock Warrants	9,539,565	9,539,615
	13,230,328	14,422,895

20. Other Finance Income (Costs)

Other finance income (costs) consisted of the following for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in millions)		(in millions)	
Pension interest cost	$ (0.7)	$ (0.7)	$ (1.4)	$ (1.5)
Expected return on pension plan assets	0.9	0.9	1.8	1.9
Foreign currency translation on senior bank debt	(3.2)	—	(0.3)	—
Foreign currency remeasurement on hedging instrument	2.1	—	0.2	—
	$ (0.9)	$ 0.2	$ 0.3	$ 0.4

21. Income Taxes

Income taxes are accounted for under the asset and liability method. Our provision for income taxes is principally based on current period income (loss), changes in deferred tax assets and liabilities and changes in estimates with regard to uncertain tax positions. We estimate current tax expense and assess temporary differences resulting from differing treatments of items for tax and accounting purposes using enacted tax rates in effect for each taxing jurisdiction in which we operate for the period in which those temporary differences are expected to be recovered or settled. These differences result in deferred tax assets and liabilities. Our total deferred tax assets are principally comprised of depreciation and net operating loss carry forwards.

The effective income tax rate for the three months ended June 30, 2019 and 2018 was 0.9% and 1.0%, respectively, resulting in a $0.1 million and $0.0 million income tax expense, respectively. The effective income tax rate for the six months ended June 30, 2019 and 2018 was 0.0% and 2.8%, respectively, resulting in a $0.0 million and $0.1 million income tax (expense)/benefit, respectively. The income tax benefit for the three and six months ended June 30, 2019 differs from the amount that would be expected after applying the statutory U.S. federal income tax rate primarily due to changes in the valuation allowance for deferred taxes and the net losses generated by the Company's non-US foreign subsidiaries. The income tax expense for the three and six months ended June 30, 2018 differs from the amount that would be expected after applying the statutory U.S. federal income tax rate primarily due to the impact of the U.S. statutory tax rate change on deferred tax assets and liabilities, the changes in the valuation allowance for deferred taxes and the net losses generated by the Company's non-US foreign subsidiaries.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the consideration of these items, management determined that it is more likely than not that the Company will not realize the deferred income tax asset balances and therefore, recorded a full valuation allowance of $59.0 million as of June 30, 2019.

The utilization of the Company's pre-Merger net operating losses is subject to a limitation due to the "change of ownership provisions" under Section 382 of the Internal Revenue Code and similar state provisions.

22. Related Parties

HG Vora Special Opportunities Master Fund, Ltd. ("HGV Fund"), which purchased promissory notes issued in connection with the 2018 refinancing of our debt facilities (see Note 12), owns approximately 16.5% of our common stock and warrants to purchase additional shares. HGV Fund is also a stockholder and investor in Leisure Acquisition Corp., a special purpose acquisition company affiliated with two members of our management. Interest expense paid to HGV Fund with respect to the promissory notes for the three and six months ended June 30, 2019 amounted to $4.1 million and $8.2 million, respectively.

We occupy office space leased by a company affiliated with our Executive Chairman, Hydra Management LLC, and incur amounts monthly in maintenance expenses primarily for the lease of the office. Expenditure amounted to less than $100,000 during the three and six months ended June 30, 2019 and 2018, respectively.

23. Commitments and Contingencies

Legal Matters

From time to time, the Company may become involved in lawsuits and legal matters arising in the ordinary course of business. While the Company believes that, currently, it has no such matters that are material, there can be no assurance that existing or new matters arising in the ordinary course of business will not have a material adverse effect on the Company's business, financial condition or results of operations.

Acquisitions

On June 11, 2019, the Company entered into an agreement to acquire Novomatic UK's Gaming Technology Group. The acquisition is subject to the approvals of regulatory authorities and other customary closing conditions. The cost of the acquisition, excluding fees, is the Euro equivalent of $120 million. The Company anticipates financing the transaction by refinancing all existing indebtedness and entering into an agreement for a new £220 million loan (made up of £ and Euro components) and a £20 million revolver facility.

24. Pension Plan

We operate a combined scheme which comprises a defined benefit section and a defined contribution section in the UK. The defined benefit section is closed to future accruals for services rendered to the Company. On March 15, 2019, it was agreed that no further deficit reduction contributions shall be made to the scheme, except in the event that the scheme funding level does not progress as expected, in which case contingent contributions would be made subject to an agreed maximum amount. No contingent contributions will become payable during the year ending December 31, 2019. The Company will continue to make expense allowance contributions to the scheme; however, no further expense allowance contributions will be made during the year ending December 31, 2019.

The total amount of employer contributions paid during the six months ended June 30, 2019 amounted to $0.2 million.

For the six months ended June 30, 2019 and 2018, the components of total periodic benefit costs were as follows:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
	(in millions)	
Components of net periodic benefit:		
Interest cost	$ 1.4	$ 1.5
Expected return on plan assets	(1.8)	(1.9)
Net periodic benefit	$ (0.4)	$ (0.4)

25. Segment Reporting and Geographic Information

The Company operates its business along two operating segments, which are segregated based on the basis of revenue stream: Service Based Gaming and Virtual Sports (which includes Interactive). The Company believes this method of segment reporting reflects both the way its business segments are managed and the way the performance of each segment is evaluated.

The following tables present revenue, cost of sales, excluding depreciation and amortization, selling, general and administrative expenses, depreciation and amortization, stock-based compensation expense and acquisition related transaction expenses, operating profit/(loss), total assets and total capital expenditures for the periods ended June 30, 2019 and 2018, respectively, by business segment. Certain unallocated corporate function costs have not been allocated to the Company's reportable operating segments because these costs are not allocable and to do so would not be practical. Corporate function costs consist primarily of selling, general and administrative expenses, depreciation and amortization, capital expenditures, cash, prepaid expenses and property and equipment and software development costs relating to corporate/shared functions.

As a result of improved processes that have allowed us to more accurately allocate costs between reporting segments, we have reclassified the previously reported segment allocation of selling, general and administrative expenses and stock-based compensation expense for the three and six months ended June 30, 2018.

Segment Information

Three Months Ended June 30, 2019

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
	(in millions)			
Revenue:				
Service	$ 16.4	$ 9.2	$ —	$ 25.6
Hardware	1.1	—	—	1.1
Total revenue	17.5	9.2	—	26.7
Cost of sales, excluding depreciation and amortization:				
Cost of service	(4.4)	(0.9)	—	(5.3)
Cost of hardware	(1.0)	—	—	(1.0)
Selling, general and administrative expenses	(6.0)	(2.1)	(4.7)	(12.8)
Stock-based compensation expense	(0.5)	(0.3)	(1.5)	(2.3)
Acquisition related transaction expenses	—	—	(0.7)	(0.7)
Depreciation and amortization	(7.2)	(1.4)	(0.5)	(9.1)
Segment operating income (loss)	(1.6)	4.5	(7.4)	(4.5)
Net operating loss				$ (4.5)
Total assets at June 30, 2019	$ 81.0	$ 64.9	$ 41.8	$ 187.7
Total goodwill at June 30, 2019	$ —	$ 44.7	$ —	$ 44.7
Total capital expenditures for the three months ended June 30, 2019	$ 2.1	$ 1.6	$ 0.5	$ 4.2

Three Months Ended June 30, 2018

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
	(in millions)			
Revenue:				
Service	$ 24.5	$ 10.0	$ —	$ 34.5
Hardware	2.4	—	—	2.4
Total revenue	26.9	10.0	—	36.9
Cost of sales, excluding depreciation and amortization:				
Cost of service	(4.6)	(1.3)	—	(5.9)
Cost of hardware	(2.1)	—	—	(2.1)
Selling, general and administrative expenses	(8.5)	(2.4)	(4.3)	(15.2)
Stock-based compensation expense	(0.3)	(0.2)	(1.0)	(1.5)
Depreciation and amortization	(8.8)	(1.5)	(0.3)	(10.6)
Segment operating income (loss)	2.6	4.6	(5.6)	1.6
Net operating loss				$ 1.6
Total assets at September 30, 2018	$ 103.4	$ 69.5	$ 35.0	$ 207.9
Total goodwill at September 30, 2018	$ —	$ 45.8	$ —	$ 45.8
Total capital expenditures for the three months ended June 30, 2018	$ 11.9	$ 2.2	$ —	$ 14.1

Six Months Ended June 30, 2019

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
	(in millions)			
Revenue:				
Service	$ 37.2	$ 19.2	$ —	$ 56.4
Hardware	4.0	—	—	4.0
Total revenue	41.2	19.2	—	60.4
Cost of sales, excluding depreciation and amortization:				
Cost of service	(8.8)	(1.9)	—	(10.7)
Cost of hardware	(2.6)	—	—	(2.6)
Selling, general and administrative expenses	(12.6)	(4.3)	(10.6)	(27.5)
Stock-based compensation expense	(0.9)	(0.6)	(2.9)	(4.4)
Acquisition related transaction expenses	—	—	(1.6)	(1.6)
Depreciation and amortization	(14.9)	(2.9)	(1.0)	(18.8)
Segment operating income (loss)	1.4	9.5	(16.1)	(5.2)
Net operating loss				$ (5.2)
Total capital expenditures for the six months ended June 30, 2019	$ 5.0	$ 3.0	$ 0.7	$ 8.7

Six Months Ended June 30, 2018

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
	(in millions)			
Revenue:				
Service	$ 48.1	$ 19.7	$ —	$ 67.8
Hardware	6.6	—	—	6.6
Total revenue	54.7	19.7	—	74.4
Cost of sales, excluding depreciation and amortization:				
Cost of service	(9.3)	(2.6)	—	(11.9)
Cost of hardware	(6.2)	—	—	(6.2)
Selling, general and administrative expenses	(16.7)	(5.3)	(8.9)	(30.9)
Stock-based compensation expense	(0.6)	(0.5)	(1.6)	(2.7)
Acquisition related transaction expenses	—	—	(0.2)	(0.2)
Depreciation and amortization	(17.5)	(3.6)	(0.6)	(21.7)
Segment operating income (loss)	4.4	7.7	(11.3)	0.8
Net operating loss				$ 0.8
Total capital expenditures for the six months ended June 30, 2018	$ 20.7	$ 3.7	$ 0.1	$ 24.5

Geographic Information

Geographic information for revenue is set forth below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in millions)		(in millions)	
Total revenue				
UK	$ 15.5	$ 22.6	$ 37.7	$ 47.2
Greece	4.8	7.6	9.6	13.1
Italy	4.2	4.2	8.4	9.0
Rest of world	2.2	2.5	4.7	5.1
Total	$ 26.7	$ 36.9	$ 60.4	$ 74.4

Geographic information of our non-current assets excluding goodwill is set forth below:

	June 30, 2019	September 30, 2018
	(in millions)	
Total non-current assets excluding goodwill		
UK	$ 45.1	$ 60.0
Greece	28.4	36.2
Italy	2.1	3.4
Rest of world	5.1	3.9
Total	$ 80.7	$ 103.5

Software development costs are included as attributable to the market in which they are utilized.

26. Customer Concentration

During the three months ended June 30, 2019, three customers represented at least 10% of revenues, accounting for 19%, 16% and 10% of the Company’s revenues. During the three months ended June 30, 2018, three customers represented at least 10% of revenues, accounting for 23%, 21% and 11% of the Company’s revenues. All these customers were served by both the Server Based Gaming and Virtual Sports segments.

During the six months ended June 30, 2019, three customers represented at least 10% of revenues, accounting for 21%, 15% and 11% of the Company’s revenues. During the six months ended June 30, 2018, three customers represented at least 10% of revenues, accounting for 23%, 17% and 15% of the Company’s revenues. All these customers were served by both the Server Based Gaming and Virtual Sports segments.

At June 30, 2019, two customers represented at least 10% of accounts receivable, accounting for 17% and 12% of the Company’s accounts receivable. At September 30, 2018, three customers represented at least 10% of accounts receivable, accounting for 15%, 13% and 12% of the Company’s accounts receivable.

27. Subsequent Events

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the financial statements were issued. Based upon this review, the Company did not identify subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes thereto included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual future results could differ materially from the historical results discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included herein and in our annual report on Form 10-K.

Forward-Looking Statements

We make forward-looking statements in this Quarterly Report on Form 10-Q. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business, and the timing and ability for us to complete currently contemplated or future acquisitions. Specifically, forward-looking statements may include statements relating to:

- the future financial performance of the Company;
- the market for the Company's products and services;
- expansion plans and opportunities, including currently contemplated or future acquisitions or additional business combinations; and
- other statements preceded by, followed by or that include words such as "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "might", "plan", "possible", "potential", "predict", "project", "proposed", "scheduled", "seek", "should", "target", "would" or similar expressions, among others.

These forward-looking statements are based on information available as of the date hereof, and current expectations, forecasts and assumptions that involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause our actual results or performance to differ include:

- our ability to compete effectively in our industries;
- the effect of evolving technology on our business;
- our ability to renew long-term contracts and retain customers, and secure new contracts and customers;
- our ability to maintain relationships with suppliers;
- our ability to protect our intellectual property;
- government regulation of our industries;
- income trends with respect to B2/B3 gaming machines in the United Kingdom ("UK") following a substantial reduction of maximum permitted bets, which came into effect on April 1, 2019;
- our ability to successfully grow by acquisition as well as organically;
- our ability to attract and retain key members of our management team;

- our need for working capital;
- our ability to secure capital for growth and expansion;
- changing consumer, technology and other trends in our industries;
- our ability to successfully operate across multiple jurisdictions and markets around the world;
- changes in local, regional and global economic and political conditions;
- our ability to effectively integrate the operations of businesses we acquire, and to grow and expand such operations; and
- other factors.

Overview

We are a global business-to-business gaming technology company, supplying Server Based Gaming ("SBG") and Virtual Sports (which includes Interactive) systems to regulated lottery, betting and gaming operators worldwide through an "omni-channel" distribution strategy. We provide end-to-end digital gaming solutions on our proprietary and secure network, which accommodates a wide range of devices, including land-based gaming machine terminals, mobile devices such as smartphones and tablets and online computer and social applications.

Our key strategic priorities are to:

- Extend our strong positions in each of Virtual Sports, Interactive and SBG by developing new omni-channel products;
- Continue to invest in games and technology in order to grow our existing customers revenues;
- Add new customers by expanding into underpenetrated markets and newly-regulated jurisdictions; and
- Pursue targeted mergers and acquisitions to expand our product portfolio and distribution footprint.

Our most recent fiscal year ended on September 30, 2018. On September 24, 2018, our Board of Directors determined, in accordance with our bylaws and the recommendation of the Audit Committee of our Board of Directors, to change our financial year, so that it begins on January 1 and ends on December 31 of each year, commencing on January 1, 2019. Accordingly, this Form 10-Q, covers the second quarter of our financial year, being the period from April 1, 2019 to June 30, 2019 and covers the first half of our financial year, being the period from January 1, 2019 to June 30, 2019. Comparatives are shown for the same 2018 periods.

Business Segments

We report our operations in two business segments, SBG and Virtual Sports (which includes Interactive, an operating segment which does not exceed the quantitative thresholds in Accounting Standards Committee "ASC" 280-10-50-12), representing our different products and services. We evaluate our business performance, resource allocation and capital spending on an operating segment level, where possible. We use our operating results and identified assets of each of our operating segments in order to make prospective operating decisions. Although our revenue and cost of sales (excluding depreciation and amortization) are reported exclusively by segment, we do include unallocated items in our consolidated financial statements for certain expenses including depreciation and amortization as well as selling, general and administrative expenses. Unallocated balance sheet line items include items that are a shared resource and therefore not allocated between operating segments.

In this report, we have changed how certain selling, general and administrative expenses are split between segments, reducing the allocation of costs within "Corporate Functions", which management believes provides a more informed allocation. As such, we have restated the segment splits for the comparative prior periods in line with the revised allocations, to give a clear comparison with the current period. Commentary within this section refers to changes from the restated segment numbers.

Our SBG business segment designs, develops, markets and distributes a broad portfolio of games through our digital network architecture. Our SBG customers include UK licensed betting offices ("LBOs"), casinos, gaming hall operators, bingo operators and regulated operators of lotteries, as well as government-affiliated operators.

Our Virtual Sports business segment designs, develops, markets and distributes ultra-high-definition games that create an always-on sports wagering experience. Our Virtual Sports customers include virtual sports retail and digital operators, including regulated betting operators, lotteries, casinos, online operators and other gaming and lottery operators in the UK, continental Europe, Africa, Asia and North America. Our Interactive business segment (reported as part of Virtual Sports) comprises the offering of our SBG and Virtual Sports content via our remote gaming servers.

Revenue

We generate revenue in two principal ways: on a participation basis and through product sales and software license fees. Participation revenue include a right to receive a share of revenue generated from (i) our Virtual Sports products placed with operators; (ii) our SBG terminals placed in gaming and lottery venues; (iii) licensing our game content and intellectual property to third parties; and (iv) our games on third-party online gaming platforms that are interoperable with our game servers.

SBG

Revenue from SBG terminals, access to our content and SBG platform, including electronic table gaming products is recognized based upon a contracted percentage of the operator's net winnings from the terminals' daily use. Where this is not the case, revenue is based upon a fixed daily or weekly usage fee. We recognize revenue from these arrangements in accordance with the series guidance in ASC 606 over time on a daily basis over the term of the arrangement, or when not specified over the expected customer relationship period. Hardware sales take the form of a transfer of ownership of our developed gaming terminals, and are recognized at a point in time upon delivery.

Virtual Sports

Virtual sports retail revenue, which includes the provision of virtual sports content and services to retail betting outlets, and virtual sports online and mobile revenue, which includes the provision of virtual sports content and services to mobile and online operators, is based upon a contracted percentage of the operator's net winnings or a fixed rental fee. We recognize revenue for these fees over time on a daily or weekly basis in accordance with the series guidance in ASC 606 over the term of the arrangement. These arrangements also typically include a perpetual license billed up front, granted to the customer for access to our gaming platform and content. As these up front bills represent payment for future services, revenue from the licensing of perpetual licenses is recognized ratably over time, or when not specified, over the expected customer relationship period. Revenue from the development of bespoke games licensed on a perpetual basis to mobile and online operators is recognized at a point in time on delivery and acceptance by the customer.

Geographic Range

Geographically, more than half of our revenue is derived from, and more than half of our non-current assets are attributed to, our UK operations, with the remainder of our revenue derived from, and non-current assets attributed to, Italy, Greece and the rest of the world.

For the three months ended June 30, 2019, we earned approximately 57.8% of our revenue in the UK, 18.1% in Greece, 15.7% in Italy and the remaining 8.4% across the rest of the world. During the three months ended June 30, 2018, we earned approximately 61.1%, 20.8%, 11.6% and 6.5% of our revenue in those regions, respectively.

For the six months ended June 30, 2019, we earned approximately 62.3% of our revenue in the UK, 16.0% in Greece, 14.0% in Italy and the remaining 7.7% across the rest of the world. During the six months ended June 30, 2018, we earned approximately 63.4%, 17.7%, 12.1% and 6.8% of our revenue in those regions, respectively.

Foreign Exchange

Our results are affected by changes in foreign currency exchange rates as a result of the translation of foreign functional currencies into our reporting currency and the re-measurement of foreign currency transactions and balances. The impact of foreign currency exchange rate fluctuations represents the difference between current rates and prior-period rates applied to current activity. The largest geographic region in which we operate is the UK and the British pound ("GBP") is considered to be our functional currency. Our reporting currency is the U.S. dollar ("USD"). Our results are translated from our functional currency of GBP into the reporting currency of USD using average rates for profit and loss transactions and applicable spot rates for period-end balances. The effect of translating our functional currency into our reporting currency, as well as translating the results of foreign subsidiaries that have a different functional currency into our functional currency, is reported separately in Accumulated Other Comprehensive Income.

During the three months ended June 30, 2019, we derived approximately 42.2% of our revenue from sales to customers outside the UK, compared to 38.9% during the three months ended June 30, 2018.

During the six months ended June 30, 2019, we derived approximately 37.7% of our revenue from sales to customers outside the UK, compared to 36.6% during the six months ended June 30, 2018.

In the section "Results of Operations" below, currency impacts shown have been calculated as the current-period average GBP:USD rate less the equivalent average rate in the prior period, multiplied by the current period amount in our functional currency (GBP). The remaining difference, referred to as functional currency at constant rate, is calculated as the difference in our functional currency, multiplied by the prior-period average GBP:USD rate. This is not a U.S. GAAP measure, but is one which management believes gives a clearer indication of results. In the tables below, variances in particular line items from period to period exclude currency translation movements, and currency translation impacts are shown independently.

Non-GAAP Financial Measures

We use certain financial measures that are not compliant with U.S. GAAP ("non-GAAP financial measures"), including EBITDA and Adjusted EBITDA, to analyze our operating performance. In this discussion and analysis, we present certain non-GAAP financial measures, define and explain these measures and provide reconciliations to the most comparable U.S. GAAP measures. See "—Non-GAAP Financial Measures" below.

Results of Operations

The following discussion and analysis of our results of operations has been organized in the following manner:

- a discussion and analysis of the Company's results of operations for the three-month period ended June 30, 2019, compared to the same period in 2018;
- a discussion and analysis of the results of operations of our SBG and Virtual Sports business segments for the three-month period ended June 30, 2019, compared to the same period in 2018, including Key Performance Indicator ("KPI") analysis;

- a discussion and analysis of the Company's results of operations for the six-month period ended June 30, 2019, compared to the same period in 2018; and

- a discussion and analysis of the results of operations of our SBG and Virtual Sports business segments for the six-month period ended June 30, 2019, compared to the same period in 2018, including KPI analysis.

The three-month financial periods presented consist of a 91-day period for each of 2019 and 2018. Each of the foregoing periods is herein referred to as a "three-month period". The six-month financial periods presented consist of a 181-day period for each of 2019 and 2018. Each of the foregoing periods is herein referred to as a "six-month period."

Our results are affected by changes in foreign currency exchange rates, primarily between our functional currency (GBP) and our reporting currency (USD). In the three-month periods ended June 30, 2019 and 2018, the average GBP:USD rates were 1.29 and 1.36, respectively. In the six-month periods ended June 30, 2019 and 2018, the average GBP:USD rates were 1.30 and 1.38, respectively.

In the discussion and analysis below, certain data may vary from the amounts presented in our consolidated financial statements due to rounding.

Three Months ended June 30, 2019 compared to Three Months ended June 30, 2018

	For the Three-Month Period ended				Variance		
(In millions)	Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	Variance 2019 vs 2018		Functional Currency at Constant rate	Functional Currency	Currency Movement
Revenue:							
Service	$ 25.6	$ 34.5	$ (8.9)	(25.8)%	$ (7.4)	(21.5)%	$ (1.5)
Hardware	1.1	2.4	(1.3)	(54.8)%	(1.3)	(53.2)%	(0.0)
Total revenue	**26.7**	**36.9**	**(10.2)**	**(27.6)%**	**(8.7)**	**(23.6)%**	**(1.5)**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(5.3)	(5.9)	0.5	(9.2)%	0.2	(4.1)%	0.3
Cost of hardware	(1.0)	(2.1)	1.1	(52.1)%	1.0	(49.6)%	0.1
Selling, general and administrative expenses	(12.8)	(15.2)	2.5	(16.3)%	1.7	(11.5)%	0.7
Stock-based compensation	(2.3)	(1.5)	(0.8)	55.7%	(1.0)	64.8%	0.1
Acquisition related transaction expenses	(0.7)	(0.0)	(0.7)	5189.6%	(0.8)	5721.4%	0.0
Depreciation and amortization	(9.1)	(10.6)	1.6	(14.7)%	1.0	(9.8)%	0.5
Net operating Income (Loss)	**(4.5)**	**1.6**	**(6.1)**	**(376.1)%**	**(6.4)**	**(385.7)%**	**0.3**
Other income (expense)							
Interest income	0.1	0.0	0.0	57.0%	(0.0)	(7.2)%	0.0
Interest expense	(4.0)	(5.2)	1.1	(22.1)%	0.9	(17.7)%	0.2
Change in fair value of earnout liability	-	(0.6)	0.6	(100.0)%	0.7	(100.0)%	(0.0)
Change in fair value of derivative liability	(1.3)	-	(1.3)	N/A	(1.4)	N/A	0.1
Other finance income (costs)	(0.9)	0.2	(1.0)	(541.1)%	(1.1)	(570.1)%	0.1
Total other income (expense), net	**(6.1)**	**(5.6)**	**(0.5)**	**9.7%**	**(0.9)**	**16.5%**	**0.4**
Net loss from continuing operations before income taxes	(10.6)	(4.0)	(6.6)	166.7%	(7.3)	184.5%	0.7
Income tax expense	(0.1)	(0.0)	(0.1)	134.7%	(0.1)	144.0%	0.0
Net loss	**$ (10.7)**	**$ (4.0)**	**$ (6.7)**	**166.4%**	**$ (7.4)**	**184.1%**	**$ 0.7**
Exchange Rate - $ to £	*1.29*	*1.36*					

Revenue

Total reported revenue for the period ended June 30, 2019 decreased by $10.2 million, or 27.6%, to $26.7 million. Adverse currency movements accounted for $1.5 million of the decrease. On a functional currency at constant rate basis, revenue decreased by $8.7 million, or 23.6%, with service revenue decreasing by $7.4 million and hardware revenue decreasing by $1.3 million.

SBG revenue, which is included in total reported revenue, above, decreased by $8.5 million on a functional currency at constant rate basis, or 31.6%, comprised of a reduction in service revenue of $7.2 million and a $1.3 million reduction in hardware sales.

The decrease in SBG service revenue was primarily due to a decrease in revenue in the UK LBO market of $5.5 million, all of which was driven by the reduction in maximum permitted bets on B2 gaming machines in the UK, effective as of April 1, 2019 ("Triennial Implementation"). The impact of the Triennial Implementation reduced UK LBO Customer Gross Win per unit per day by 41.1%; however, the decline in Gross win improved by 6.5% over the three months from a 44.5% decline in the first month of the new permitted bets to a 38.0% decline in June 2019. Additionally, there was a decrease in revenue in the Greek market of $1.9 million driven by a reduction in software license sales of $3.6 million, partly offset by the rollout of terminals which drove additional income of $1.7 million. Revenue in the Italian market increased by $0.2 million due to $0.3 million of license sales, partly offset by an increase in the revenue tax rate.

The decrease in hardware revenue was driven by lower hardware sales in the UK market of $1.4 million, due to lower Self Service Betting Terminal ("SSBT") sales, partly offset by higher Flex terminal sales ($0.4 million of the prior year sales were all at nil margin) and Electronic Table Game ("ETG") sales of the Sabre Hydra terminal of $0.1 million.

Virtual Sports revenue decreased on a functional currency at constant rate basis by $0.2 million, or 2.1%. There was a $0.5 million decrease in revenue due to a rephasing of the annual contract with a major customer. Virtual Sports revenue was also impacted by a decline in revenue from long-term Virtual Sports licenses of $0.3 million which have now been fully amortized. This was partly offset by growth in UK Retail of $0.1 million, including revenue from the migration of B2 players due to the Triennial Implementation, growth in Belgium Retail of $0.1 million, growth in Virtual Sports Scheduled Online Virtuals of $0.2 million, and growth in other existing customers and new customer launches in Retail in the rest of the world of $0.2 million. Therefore, Virtual Sports underlying revenue increased by $0.5 million.

Cost of sales, excluding depreciation and amortization

Cost of sales, excluding depreciation and amortization, which includes machine cost of sales, consumables, content royalties and connectivity costs, decreased by $1.6 million, or 20.5%, on a reported basis, to $6.3 million. Of this decrease, $0.4 million arose from favorable currency movements. On a functional currency at constant rate basis, cost of sales decreased by $1.3 million, or 16.0%.

This decline was due to a decrease in cost of hardware of $1.0 million, or 49.6%, due to lower hardware sales in the UK market, and a decrease in cost of service of $0.2 million, or 4.1%, primarily due to a $0.3 million decrease in Virtual Sports service costs.

Selling, general and administrative expenses

SG&A expenses decreased by $2.5 million, or 16.3%, on a reported basis, to $12.8 million, comprised of a decrease of $1.7 million on a functional currency at constant rate basis and $0.7 million from favorable currency movements. This was driven by staff-related cost savings (made in conjunction with the Triennial Implementation) of $1.5 million, a decrease in the costs of group restructure of $0.4 million (removed from Adjusted EBITDA), facilities cost savings of $0.4 million and IT-related cost savings of $0.3 million. This was partly offset by a decrease in labor capitalization and manufacturing recoveries of $1.0 million due to lower headcount, mix of projects and lower factory throughput.

Stock-based compensation

During the three months ended June 30, 2019, the Company recorded an expense of $2.3 million with respect to outstanding awards. Of this expense, $1.5 million related to costs from awards made under the 2016 Long Term Incentive Plan, $0.4 million from awards made in September 2018 under the 2018 Omnibus Incentive Plan (the "2018 Plan") and $0.4 million from awards made in January 2019 under the 2018 Plan. The entirety of this cost was related to recurring costs, with the September 2018 award scheme expense impacted by movements in the stock price between the start of the period and May 14, 2019, when the scheme was formally approved by stockholders. Following approval, the cost was no longer impacted by stock price movements and was charged by the same method as all other award plans. During the three months ended June 30, 2018, the charge for stock-based compensation was $1.5 million, all of which related to awards made under the 2016 Long Term Incentive Plan and related to recurring costs.

Acquisition related transaction expenses

Acquisition-related transaction expenses of $0.7 million relate to professional fees in relation to the proposed acquisition of Novomatic UK's Gaming Technology Group.

Depreciation and amortization

Depreciation and amortization decreased by $1.6 million, or 14.7%, on a reported basis, to $9.1 million. This included the impact of favorable currency movements of $0.5 million.

On a functional currency at constant rate basis, depreciation and amortization decreased by $1.0 million, or 9.8%. This decrease was driven by lower machine depreciation of $0.9 million and $0.2 million lower amortization. The decrease in machine and machine-related depreciation was driven by fully depreciated machines in the UK LBO market driving $1.2 million and in Italy of $0.4 million. This was partly offset by additional depreciation in Greece of $0.8 million due to the deployment of additional terminals in the Greek market.

Net operating loss

During the period on a reported basis, net operating income moved from an income of $1.6 million to a loss of $4.5 million. On a functional currency at constant rate basis, net operating income reduced by $6.4 million, mainly due to the reduction in revenue and increase in stock-based compensation and acquisition related transaction expenses, partly offset by savings in cost of sales, SG&A expenses and depreciation and amortization, as well as a $0.3 million favorable currency movement. The net impact of the Triennial Implementation for the period (included in the $6.4 million) was $4.0 million. However, this net impact is anticipated to be reduced in future periods as further cost savings are implemented and we see the benefit of reduced costs and machines available for harvesting and sale from store closures and associated returned machines.

Interest expense

Interest expense decreased by $1.1 million in the period, to $4.0 million, on a reported basis. Of this variance $0.2 million was due to a favorable currency movement. On a functional currency at a constant rate basis, interest expense was $0.9 million (17.7%) lower than the prior year. Savings of $2.0 million of PIK interest (no longer incurred following the debt refinancing in August 2018) and a foreign exchange benefit of $0.5 million was offset by an increase of $1.1 million of cash interest charge due to a higher debt balance amount and a $0.5 million increase in amortization of capitalized debt fees.

Change in fair value of earnout liability

On March 25, 2019, the shares relating to the earnout liability were issued and accordingly no charge was made in the current quarter. In the prior period, due to changes in share price, the corresponding figure was a $0.6 million charge.

Change in fair value of derivative liability

Change in fair value of derivative liability was $1.3 million arising from the fair valuing of the cross-currency swaps executed in August 2018 in connection with the debt refinancing of the Company. This represents the unhedged amount of the cross-currency swap. For the three months ended June 30, 2018, there was no charge relating to derivative liabilities.

Other finance income

Other finance income for the period ended June 30, 2019 was a $0.9 million charge, $1.0 million higher than the previous year. Changes in exchange rates resulted in a loss of $3.2 million in retranslating the debt balance. This was partly offset by a $2.2 million gain from the GBP: USD cross currency swap entered into to mitigate this impact, accounted for under hedge accounting. Both the current and the prior period had a pension interest gain of $0.2 million.

Income tax expense

Our effective tax rate for the period ended June 30, 2019 was 0.8%, and our effective tax rate for the period ended June 30, 2018 was 1.0%.

Net loss

On a reported basis, net loss increased by $6.7 million from a loss of $4.0 million to a loss of $10.7 million in the period ended June 30, 2019. On a functional currency at constant rate basis net loss increased by $7.4 million, mainly due to the $1.4 million reduction in the change in fair value of derivative liability and the reduction in revenue discussed above. This was partly offset by lower costs of hardware and lower SG&A expenses, as well as a favorable currency movement of $0.7 million.

Three Months ended June 30, 2019 compared to Three Months ended June 30, 2018 – Server Based Gaming Segment

We generate revenue from our SBG business segment through product sales (both hardware and software) and long-term participation agreements, which include access to our SBG platform and the selection of game titles, usually over a term of between three and five years but longer in certain territories. Our participation contracts are typically structured to pay us a percentage of net win (defined as net revenue to our operator customers, after deducting player winnings, free bets or plays and any relevant regulatory levies) from SBG terminals placed in our customers' facilities, which include retail outlets, casinos and other gaming operations, or from SBG gaming software used by customers' players through mobile or online devices. Typically, we recognize revenue from these arrangements on a daily basis over the term of the contract.

Revenue growth for our SBG business is principally driven by the number of operator customers we have, the number of SBG machines in operation, the net win performance of the machines and the net win percentage that we receive pursuant to our contracts with our customers.

SBG segment, Key Performance Indicators

SBG

	For the Three-Month Period ended		Variance	
	Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	2019 vs 2018	%
End of period installed base (# of terminals)	35,077	32,579	2,498	7.7%
Average installed base (# of terminals)	35,241	32,107	3,134	9.8%
Customer Gross Win per unit per day [(1)]	£ 72.71	£ 112.07	£ (39.37)	(35.1)%
Customer Net Win per unit per day [(1)]	£ 51.79	£ 79.97	£ (28.18)	(35.2)%
Inspired Blended Participation Rate	6.4%	6.0%	0.4%	

(1) Includes all SBG terminals in which the company takes a participation revenue share across all territories

In the table above:

“End of Period Installed Base” is equal to the number of deployed SBG terminals at the end of each period that have been placed on a participation basis. SBG participation revenue, which comprises the majority of SBG service revenue, is directly related to the terminal installed base. This is the medium by which customers generate revenue and distribute a revenue share to the Company. To the extent all other “KPI “and certain other factors” being equal” remain constant, the larger the installed base, the higher the Company’s revenue will be for that period. Management gives careful consideration to this KPI in terms of driving growth across the segment.

Revenue is derived from the performance of the installed base as described by the Gross and Net Win KPIs.

If the End of Period Installed Base is materially different from the Average Installed Base (described below), we believe this gives an indication as to potential future performance. The End of Period Installed Base is particularly useful for assessing new customers or markets, to indicate the progress being made with respect to entering new territories or jurisdictions.

“Average Installed Base” is the average number of deployed SBG terminals during the period. Therefore, it is more closely aligned to revenue in the period. This measure is particularly useful for assessing existing customers or markets to provide comparisons of historical size and performance.

“Customer Gross Win per unit per day” is a KPI used by our internal decision makers to (i) assess impact on the Company’s revenue, (ii) determine changes in the strength of the overall market and (iii) evaluate the impacts of regulatory change and our new content releases on our customers. Customer Gross Win per unit per day is the average per unit cash generated across all SBG terminals in which the Company takes a participation revenue share across all territories in the period, defined as the difference between the amounts staked less winnings to players divided by the Average Installed Base in the period, then divided by the number of days in the period.

SBG revenue share income accrued in the period is derived from Customer Gross Win accrued in the period after deducting gaming taxes (defined as a regulatory levy paid by the Customer to government bodies) and applying the Company’s contractual revenue share percentage.

Our internal decision makers believe Customer Gross Win measures are meaningful because they represent a view of customer operating performance that is unaffected by our revenue share percentage and allow management to (1) readily view operating trends, (2) perform analytical comparisons and benchmarking between customers and (3) identify strategies to improve operating performance in the different markets in which we operate.

“Customer Net Win per unit per day” is Customer Gross Win per unit per day after giving effect to the deduction of gaming taxes.

“Inspired Blended Participation Rate” is the Company’s average revenue share percentage across all terminals where revenue is earned on a participation basis, weighted by Customer Net Win per unit per day.

Our overall SBG revenue from terminals placed on a participation basis can therefore be described as the product of the Average Installed Base, the Customer Net Win per unit per day, the number of days in the period, and the Inspired Blended Participation Rate, to give “participation revenue”.

SBG segment, key events that affected results for the Three Months ended June 30, 2019

During the period the Customer Gross Win per unit per day for the total UK market (including non-LBO UK markets) decreased by 36.8%. This was due to the reduction in maximum permitted bets on B2 gaming machines in the UK, effective as of April 1, 2019. The revenue impact of this regulatory change was in line with our expectations.

During the period, an additional 60 SSBTs were sold and deployed in the UK LBO market and we already have additional orders for this product for the second half of the year. In addition to hardware sale margin, these terminals also generate a recurring service fee.

In the UK Casino market, we sold 88 “Flex” B3 terminals to a major customer. These terminals were all installed by the end of May 2019 and will generate a recurring software rental fee and content revenue share to the Company in future periods.

The total installed base of our contracted 8,360 terminals in Greece remained flat at over 7,300 for the period ended June 30, 2019 due to legislative reasons which were resolved after the quarter end. However, during the period Inspired was awarded a further 580 contracted VLTs, 380 of which will be our new “Valor VIP” cabinet. This brings the total number of our contracted terminals in Greece to 8,940.

In Italy, customer Net Win per unit per day (in EUR) decreased by €13, or 28.9%, due to an increase in revenue tax of 1.9% from 6.8% in 2018 to 8.7% in 2019

Overall, the size of our Installed Base at the end of the period increased 7.7%, to 35,077, due to our terminal rollout in Greece over the last 12 months, growth from new contract awards in the UK LBO estate and further machine growth in Italy.

Customer Gross Win per unit per day (in our functional currency, GBP) decreased by 35.1% across the entire estate, driven by the reduction in maximum permitted bets on B2 gaming machines in the UK. This regulatory change, along with an increase in Italian tax rates, led to a Net Win per unit per day decrease of 35.2%.

Our blended participation rate increased to 6.4% from 6.0% for the same period last year. Due to the Triennial Implementation, non-UK LBO revenue is now a greater proportion of our overall participation revenue, which generates a higher average participation rate than the UK LBO market.

SBG Segment, Three Months ended June 30, 2019 compared to Three Months ended June 30, 2018

Server Based Gaming

	For the Three-Month Period ended				Variance		
(In millions)	Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	Variance 2019 vs 2018		Functional Currency at Constant rate	Functional Currency	Currency Movement
Revenue:							
Service	$ 16.4	$ 24.5	$ (8.2)	(33.3)%	$ (7.2)	(29.5)%	$ (0.9)
Hardware	1.1	2.4	(1.3)	(54.8)%	(1.3)	(53.2)%	(0.0)
Total revenue	**17.5**	**26.9**	**(9.5)**	**(35.2)%**	**(8.5)**	**(31.6)%**	**(1.0)**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(4.4)	(4.6)	0.2	(3.8)%	(0.1)	2.2%	0.3
Cost of hardware	(1.0)	(2.1)	1.1	(52.1)%	1.0	(49.6)%	0.1
Total cost of sales	**(5.4)**	**(6.7)**	**1.3**	**(18.9)%**	**0.9**	**(14.0)%**	**0.3**
Selling, general and administrative expenses	(6.0)	(8.5)	2.5	(29.4)%	2.1	(25.1)%	0.4
Stock-based compensation	(0.5)	(0.3)	(0.2)	66.7%	(0.2)	78.5%	0.0
Depreciation and amortization	(7.2)	(8.8)	1.6	(18.5)%	1.1	(13.0)%	0.5
Net operating profit	**$ (1.6)**	**$ 2.6**	**$ (4.3)**	**(162.3)%**	**$ (4.5)**	**(164.7)%**	**$ 0.2**
Exchange Rate - $ to £	*1.29*	*1.36*					

SBG segment revenue. In the period revenue decreased by $9.5 million, to $17.5 million, on a reported basis. This decrease was due in part to adverse currency movements of $1.0 million. On a functional currency at constant rate basis, SBG revenue decreased by $8.5 million, or 31.6%.

Service revenue decreased by $8.2 million on a reported basis, which included adverse currency movements of $0.9 million. On a functional currency at constant rate basis, SBG service revenue decreased by $7.2 million, or 29.5%, to $16.4 million. This was primarily due to a decrease in revenue in the UK LBO market of $5.5 million primarily driven by the impact of the Triennial Implementation in line with our previous expectations. Additionally, there was a decrease in revenue in the Greek market of $1.9 million driven by a reduction in software license sales of $3.6 million partly offset by the rollout of terminals which drove additional income of $1.7 million. Revenue in the Italian market increased by $0.2 million due to $0.3 million of license sales partly offset by the 1.9% increase in tax rate.

Although SBG service revenue decreased in the period, SBG recurring revenue as a percentage of total SBG revenue increase by 8.2% to 79.8%.

The continued terminal rollout into the Greek market drove additional participation revenue of $0.6 million and other recurring revenue of $1.1 million. This was offset by a $3.6 million reduction in software license sales compared to last year.

UK LBO Customer Gross Win per unit per day declined by 41.1%. This was due to the impact of the Triennial Implementation which was in line with our expectations. The decline in Gross win has improved by 6.5% in the last three months from a 44.5% decline in the first month of the new permitted bets to a 38.0% decline in June.

Hardware revenue decreased by $1.3 million to $1.1 million, on a reported basis. On a functional currency at constant rate basis, SBG hardware revenue decreased by $1.3 million, due to lower Self Service Betting Terminal (“SSBT”) sales in the UK market of $1.7 million, partly offset by higher Flex terminal sales of $0.3 million ($0.4 million of the prior year sales were all at nil margin) and Electronic Table Game (“ETG”) sales of the Sabre Hydra terminal of $0.1 million.

SBG segment operating income. Cost of sales (excluding depreciation and amortization) decreased by $1.3 million to $5.4 million on a reported basis. This variance was impacted by favorable currency movements of $0.3 million. On a functional currency at constant rate basis, cost of sales decreased by $0.9 million. This was principally due to a decrease in hardware costs of $1.0 million driven by lower hardware sales in in the UK market, partly offset by $0.1 million higher service costs. The higher service costs were driven by Greek SBG service costs which increased by $0.3 million driven by the increase in terminals in the Greek market as well as $0.1 million of higher other costs in the UK market. These increases were offset by a decrease in UK consumables of $0.2 million and a $0.2 million decrease in costs from lower software license sales in Greece.

SG&A expenses decreased by $2.5 million to $6.0 million, on a reported basis. Of this variance, $0.4 million arose from favorable currency movements. This resulted in a functional currency at constant rate decrease of $2.1 million driven by staff-related cost savings of $1.5 million (of which $1.3 million was made in conjunction with the Triennial Implementation), lower costs of group restructure of $1.2 million, other cost savings of $0.5 million and distribution cost savings of $0.3 million. This was partly offset by $0.9 million lower labor capitalization and manufacturing recoveries due to lower headcount, mix of projects and lower factory throughput as a result of fewer machines being built in the quarter.

Depreciation and amortization decreased by $1.6 million, to $7.2 million on a reported basis. Of this amount, $0.5 million was due to favorable currency movements. On a functional currency at constant rate basis, the decrease was $1.1 million, driven by $0.9 million from lower machine and machine-related depreciation and $0.3 million lower amortization. The lower machine and machine-related depreciation was driven by lower depreciation in the UK ($1.2 million) and Italy ($0.4 million) due to machines being fully depreciated, partly offset by the additional machine and machine-related depreciation in Greece of $0.8 million due to the additional terminals in the Greek market.

Operating profit decreased by $4.3 million, from a profit of $2.6 million to a loss of $1.6 million, on a reported basis. On a functional currency at constant rate basis, SBG operating profit decreased by $4.5 million. This was primarily due to the decrease in revenue, partly offset by lower cost of sales, SG&A expenses and depreciation and amortization.

SBG segment, Recurring Revenue

Set forth below is a breakdown of our SBG recurring revenue. SBG recurring revenue consists principally of SBG participation revenue.

(In £ millions)	For the Three-Month Period ended Unaudited Jun 30, 2019	For the Three-Month Period ended Unaudited Jun 30, 2018	Variance 2019 vs 2018	%
SBG Recurring Revenue				
Total SBG Revenue	£ 13.6	£ 19.8	£ (6.3)	(31.6)%
SBG Participation Revenue	£ 10.6	£ 14.0	£ (3.4)	(24.2)%
SBG Other Fixed Fee Recurring Revenue	£ 0.2	£ 0.2	£ (0.0)	(1.1)%
Total SBG Recurring Revenue	£ 10.8	£ 14.2	£ (3.4)	(23.8)%
SBG Recurring Revenue as a Percentage of Total SBG Revenue	79.8%	71.7%	8.2%	

In the table above:

"SBG Participation Revenue" includes our share of revenue generated from (i) our SBG terminals placed in gaming and lottery venues; and (ii) licensing of our game content and intellectual property to third parties.

"SBG Other Fixed Fee Recurring Revenue" includes service revenue in which the Company earns a periodic fixed fee on a contracted basis.

"Total SBG Recurring Revenue" is equal to SBG Participation Revenue plus SBG Other Fixed Fee Recurring Revenue.

SBG segment, Service Revenue by Region

Set forth below is a breakdown of our SBG service revenue by geographic region. SBG service revenue consists principally of SBG participation revenue.

Server Based Gaming Service Revenue by Region

(In millions)	For the Three-Month Period ended Unaudited Jun 30, 2019	For the Three-Month Period ended Unaudited Jun 30, 2018	Variance 2019 vs 2018		Variance: Functional Currency at Constant rate	Variance: Functional Currency	Variance: Currency Movement
Service Revenue:							
UK LBO	$ 8.7	$ 14.6	$ (6.0)	(40.9)%	$ (5.5)	(37.4)%	$ (0.5)
UK Other	1.3	1.4	(0.1)	(6.3)%	(0.0)	(0.7)%	(0.1)
Italy	2.3	2.3	0.0	1.8%	0.2	7.9%	(0.1)
Greece	4.0	6.0	(2.0)	(33.7)%	(1.9)	(30.6)%	(0.2)
Rest of the World	0.2	0.3	(0.1)	(41.1)%	(0.1)	(37.9)%	(0.0)
Total service revenue	**$ 16.4**	**$ 24.5**	**$ (8.2)**	**(33.3)%**	**$ (7.2)**	**(29.5)%**	**$ (0.9)**
Exchange Rate - $ to £	*1.29*	*1.36*					

Virtual Sports Segment*, *Three Months ended June 30, 2019 compared to Three Months ended June 30, 2018

Our Virtual Sports products create a form of simulated sports betting in both a streaming and on-demand environment, overcoming the relative infrequency of live sporting events on which players can wager. We generate revenue from our Virtual Sports segment by licensing to our operator customers the software related to our Virtual Sports products, which consists of a complex graphics and networking software package that provides fixed-odds wagering on an ultra-high definition computer rendering of a virtual sporting event, such as soccer or boxing. Our customers pay us for the use of this software through either a fixed license fee per period, or on a participation basis based on the volume of customer net win. We also generate revenue by providing upfront services to our customers. Revenue growth for our Virtual Sports segment is driven by the number of customers, the number of player end-points and the customer net win attributable to our products.

Our customers for Virtual Sports include regulated betting operators, lotteries, casinos, online operators and other gaming and lottery operators in the UK, continental Europe, Africa, Asia and North America. Virtual Sports can be adapted to function in a sports betting, lottery, or gaming environment and is therefore available to a wide range of customers in both public and private implementations.

Virtual Sports segment, Key Performance Indicators

Virtuals

	For the Three-Month Period ended				Variance		
	Unaudited Jun 30, 2019		Unaudited Jun 30, 2018		2019 vs 2018		%
No. of Live Customers at the end of the period		105		95		10	10.5%
Average No. of Live Customers		105		93		12	13.3%
Total Revenue (£'m)	£	7.2	£	7.3	£	(0.1)	(1.9)%
Total Virtual Sports Recurring Revenue (£'m)	£	6.5	£	6.6	£	(0.0)	(0.6)%
Total Revenue £'m - Retail	£	4.0	£	4.6	£	(0.5)	(11.9)%
Total Revenue £'m - Scheduled Online Virtuals	£	2.4	£	2.1	£	0.3	16.3%
Total Revenue £'m - Interactive	£	0.7	£	0.7	£	0.1	10.5%
Average Revenue Per Customer per day (£)	£	753	£	870	£	(117)	(13.4)%

In the table above:

"No. of Live Customers at the end of the period" and "Average No. of Live Customers" represent the number of customers from which there is Virtual Sports revenue at the end of the period and the average number of customers from which there is Virtual Sports revenue during the period, respectively.

"Total Revenue (£000)" represents total revenue for the Virtual Sports segment, including recurring and upfront service revenue. Total revenue is also divided between "Total Revenue (£000) – Retail," which consists of revenue earned through players wagering at Virtual Sports venues, "Total Revenue (£000) – Scheduled Online Virtuals," which consists of revenue earned through players wagering on Virtual Sports online, and "Total Revenue (£000) – Interactive," which consists of revenue earned through our Interactive product.

"Recurring Revenue" includes our share of revenue generated from (i) our Virtual Sports products placed with operators; (ii) licensing our game content and intellectual property to third parties; and (iii) our games on third-party online gaming platforms that are interoperable with our game servers.

"Average Revenue per Customer per day" represents total revenue for the Virtual Sports segment in the period, divided by the Average No. of Live Customers, divided by the number of days in the period.

Virtual Sports segment, Recurring Revenue

(In £ millions)	For the Three-Month Period ended Unaudited Jun 30, 2019		For the Three-Month Period ended Unaudited Jun 30, 2018		Variance 2019 vs 2018		
							%
Virtual Sports Recurring Revenue							
Total Virtual Sports Revenue	£	7.2	£	7.3	£	(0.1)	(1.9)%
Recurring Revenue - Retail and Scheduled Online Virtuals	£	5.8	£	5.9	£	(0.1)	(0.9)%
Recurring Revenue - Interactive	£	0.7	£	0.7	£	0.0	1.5%
Total Virtual Sports Recurring Revenue	£	6.5	£	6.6	£	(0.0)	(0.6)%
Virtual Sports Recurring Revenue as a Percentage of Total Virtual Sports Revenue		90.5%		89.3%		1.2%	

For definitions of the terms used in the table above, see the definitions provided under the corresponding “Virtual Sports segment, Key Performance Indicators” table for the three-month periods ended June 30, 2019 and 2018, set forth earlier in this Management’s Discussion and Analysis section.

Virtual Sports segment, key events that affected results for the Three Months ended June 30, 2019

In the UK, we deployed our Rush Bingo product on a dedicated channel to the Betfred estate of approximately 1,600 venues. In Ireland, we launched a fourth channel of Virtual Horses with Boylesports. In Romania, we launched Rush Football 2™ with Superbet.

The EGR B2B awards were held in June, at which Inspired was awarded Virtual Sports Supplier of the Year.

During the period, our interactive division launched with four new customers including in New Jersey and the UK. We also launched new content, including Bear Money™ and Book of the Irish™, across the estate, which have performed strongly.

The Average Number of Live Customers during the period increased by twelve, from 93 to 105. Including the launch of four new Interactive customers, our Average Number of Live Interactive Customers for the period increased to 40.

Despite a decrease in Average Revenue per Customer per Day due to the rephasing of the annual contract with a major customer. However, we have extended the contract for a further two-year term and we should see some benefit in the fourth quarter. Virtual Sports recurring revenue as a percentage of total Virtual Sports revenue increase by 1.2% to 90.5%. This was driven by growth in UK Retail of 14%, growth in Belgium Retail of 88%, growth in Asia Retail of 54% and growth in Scheduled Online Virtuals of 9%.

Virtual Sports segment, Three Months ended June 30, 2019 compared to Three Months ended June 30, 2018

Virtual Sports	**For the Three-Month Period ended**				**Variance**		
(In millions)	**Unaudited Jun 30, 2019**	**Unaudited Jun 30, 2018**	**Variance 2019 vs 2018**		**Functional Currency at Constant rate**	**Functional Currency**	**Currency Movement**
Service Revenue	**$ 9.2**	**$ 10.0**	**$ (0.8)**	**(7.6)%**	**$ (0.2)**	**(1.9)%**	**$ (0.5)**
Cost of Service	(0.9)	(1.3)	0.4	(30.4)%	0.3	(26.3)%	0.1
Selling, general and administrative expenses	(2.1)	(2.4)	0.3	(12.5)%	0.2	(9.7)%	0.1
Stock-based compensation	(0.3)	(0.2)	(0.1)	50.0%	(0.1)	56.1%	0.0
Depreciation and amortization	(1.4)	(1.5)	0.1	(6.7)%	(0.0)	1.6%	0.1
Net operating profit	**$ 4.5**	**$ 4.6**	**$ (0.1)**	**(1.5)%**	**$ 0.2**	**4.5%**	**$ (0.3)**
Exchange Rate - $ to £	*1.29*	*1.36*					

Virtual Sports segment revenue. In the period revenue decreased by $0.8 million, or 7.6%, on a reported basis. This decrease includes the impact of adverse currency movements of $0.5 million. On a functional currency at constant rate basis, Virtual Sports revenue decreased by $0.2 million, or 1.9%. This decrease included a $0.5 million decrease in revenue as a result of a rephasing of the annual contract with a major customer. Virtuals revenue was also impacted by a decline in revenue from long-term Virtual Sports licenses of $0.3 million, which have now been fully amortized. This was partly offset by growth in UK Retail of $0.1 million, including revenue from the migration of B2 players due to the Triennial Implementation, growth in Belgium Retail of $0.1 million, growth in Scheduled Online Virtuals of $0.2 million, and growth in other existing customers and new customer launches in Retail in the rest of the world of $0.2 million. Therefore, Virtual Sports underlying revenue increased by $0.5 million.

Virtual Sports segment operating income. Cost of service decreased by $0.4 million to $0.9 million, on a reported basis. Of this decrease, $0.1 million arose from favorable currency movements. On a functional currency at constant rate basis, cost of service decreased by $0.3 million, due to lower cost of sales driven by the lower incomes and lower commissions paid in 2019.

SG&A expenses decreased by $0.3 million on a reported basis. Of this decrease, $0.1 million arose from favorable currency movements. On a functional currency at constant rate basis, SG&A decreased by $0.2 million, largely driven by staff-related cost savings of $0.3 million.

Depreciation and amortization decreased by $0.1 million, to $1.4 million, on a reported basis, due to favorable currency movements. This resulted in no change on a functional currency at constant rate basis.

Operating profit decreased by $0.1, million on a reported basis, to $4.5 million, which includes a negative impact of $0.3 million from adverse currency movements. On a functional currency at constant rate basis, this represented an increase of $0.2 million, or 4.5%. This was primarily due to a decrease in cost of service and lower SG&A expenses, partly offset by lower revenue and $0.1 million of higher stock-based compensation.

Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018

(In millions)	For the Six-Month Period ended Unaudited Jun 30, 2019	For the Six-Month Period ended Unaudited Jun 30, 2018	Variance 2019 vs 2018		Variance: Functional Currency at Constant rate	Variance: Functional Currency	Variance: Currency Movement
Revenue:							
Service	$ 56.4	$ 67.8	$ (11.3)	(16.7)%	$ (7.7)	(11.4)%	$ (3.6)
Hardware	4.0	6.6	(2.7)	(40.1)%	(2.4)	(36.9)%	(0.2)
Total revenue	**60.4**	**74.4**	**(14.0)**	**(18.8)%**	**(10.1)**	**(13.6)%**	**(3.9)**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(10.7)	(11.9)	1.2	(10.1)%	0.5	(4.1)%	0.7
Cost of hardware	(2.6)	(6.2)	3.5	(57.0)%	3.3	(54.3)%	0.2
Selling, general and administrative expenses	(27.5)	(30.9)	3.4	(10.9)%	1.6	(5.0)%	1.8
Stock-based compensation	(4.4)	(2.7)	(1.7)	60.5%	(1.9)	70.8%	0.3
Acquisition related transaction expenses	(1.6)	(0.2)	(1.3)	554.1%	(1.4)	612.3%	0.1
Depreciation and amortization	(18.8)	(21.7)	3.0	(13.7)%	1.7	(8.0)%	1.2
Net operating (Loss) Income	**(5.2)**	**0.8**	**(5.9)**	**(774.0)%**	**(6.4)**	**(751.7)%**	**0.5**
Other income (expense)							
Interest income	0.1	0.1	(0.1)	(49.4)%	(0.1)	(45.6)%	(0.0)
Interest expense	(8.5)	(10.3)	1.8	(17.5)%	1.2	(12.0)%	0.6
Change in fair value of earnout liability	(2.3)	3.1	(5.4)	(172.8)%	(5.4)	(181.2)%	0.0
Change in fair value of derivative liability	(0.1)	1.5	(1.6)	(106.3)%	(1.7)	(110.1)%	0.0
Other finance income (costs)	0.3	0.4	(0.1)	(18.4)%	(0.1)	(14.1)%	(0.0)
Total other income (expense), net	**(10.5)**	**(5.2)**	**(5.3)**	**103.3%**	**(6.0)**	**112.8%**	**0.6**
Net loss from continuing operations before income taxes	(15.7)	(4.4)	(11.3)	256.1%	(12.4)	278.4%	1.1
Income tax expense	0.0	(0.1)	0.1	(102.9)%	0.1	(100.8)%	0.0
Net loss	**$ (15.7)**	**$ (4.5)**	**$ (11.2)**	**246.4%**	**$ (12.3)**	**268.3%**	**$ 1.1**
Exchange Rate - $ to £	*1.30*	*1.38*					

Revenue

Total reported revenue for the period ended June 30, 2019 decreased by $14.0 million, or 18.8%, to $60.4 million. Adverse currency movements accounted for $3.9 million of the decrease. On a functional currency at constant rate basis, revenue decreased by $10.1 million, or 13.6%, with service revenue decreasing by $7.7 million and hardware revenue decreasing by $2.4 million.

SBG revenue, which is included in total reported revenue, above, decreased by $11.0 million on a functional currency at constant rate basis, or 20.1%, comprised of a reduction in service revenue of $8.6 million and a $2.4 million reduction in hardware sales.

The decrease in SBG service revenue was primarily due to a decrease in revenue in the UK LBO market of $6.0 million, $5.5 million driven by the Triennial Implementation and $0.5 million due to the expiring of a service contract. The impact of the Triennial Implementation reduced UK LBO Customer Gross Win per unit per day by 22.3% across the period. However, the decline in Gross win improved by 6.5% over the last three months from a 44.5% decline in the first month of the new permitted bets to a 38.0% decline in June 2019. Additionally, there was a reduction in the Greek market of $2.0 million driven by a reduction in software license sales of $4.8 million partly offset by the continued terminal rollout which drove additional income of $2.8 million. Revenue in the Italian market decreased by $0.1 million due to the 1.9% tax increase and $0.2 million from lower sales of machine parts, this was partly offset by $0.3 million of license sales. Revenue in UK Other decreased by $0.2 million due to lower ad hoc service work in the period.

The decrease in hardware revenue was driven by lower hardware sales in the UK market of $4.5 million, due to lower Flex terminal sales ($4.0 million of the prior year sales were all at nil margin) and lower Self Service Betting Terminal (“SSBT”) sales in the UK market. This was partly offset by higher Electronic Table Game (“ETG”) sales of the Sabre Hydra terminal of $2.0 million.

Virtual Sports revenue increased on a functional currency at constant rate basis by $0.9 million, or 4.4%, driven by growth in the UK of $0.7 million and Italy of $0.1 million, as well as growth in other existing customers and new customer launches in the rest of the world of $0.7 million. Additionally, we generated one-off income during the period from historic recurring revenue previously unreported to us of $0.8 million across Virtual and Interactive customers. This was partly offset by a reduction of $0.5 million from the decrease in long-term Virtual Sports contracts which have now been fully amortized and of $0.4 million due to the rephasing of the annual contract with a major customer. Therefore underlying Virtual Sports revenue increased by $0.9 million.

Cost of sales, excluding depreciation and amortization

Cost of sales, excluding depreciation and amortization, which includes machine cost of sales, consumables, content royalties and connectivity costs, decreased by $4.7 million, or 26.1%, on a reported basis, to $13.3 million. Of this decrease, $0.9 million arose from favorable currency movements. On a functional currency at constant rate basis, cost of sales decreased by $3.8 million, or 21.2%.

This was due to a decrease in cost of hardware of $3.3 million, or 54.3%, due to lower hardware sales in the UK market, partly offset by higher ETG cost of hardware as well as a decrease in cost of service of $0.5 million, or 4.1%, due to a decrease in Virtual Sports service costs of $0.6 million.

Selling, general and administrative expenses

SG&A expenses decreased by $3.4 million, or 10.9%, on a reported basis, to $27.5 million, Of this decrease $1.8 million arose from favorable currency movements. On a functional currency at constant rate basis, SG&A decreased by $1.6 million or 5.0%. This was driven by staff-related cost savings of $2.6 million (of which $1.5 million was made in conjunction with the Triennial Implementation), facilities cost savings of $0.4 million, IT-related cost savings of $0.3 million and legal cost savings of $0.3 million. This was offset by an increase in the costs of group restructure of $0.7 million (removed from Adjusted EBITDA) and a decrease in net labor capitalization and manufacturing recoveries of $1.7 million due to mix of projects and lower factory throughput as a result of fewer machines being built.

Costs of group restructure include redundancy costs, Payments In Lieu of Notice costs, any associated employer taxes and costs associated with onerous property leases. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save ongoing future costs. These costs were primarily incurred in connection with the property consolidation exercise within the UK.

Stock-based compensation

During the six months ended June 30, 2019, the Company recorded an expense of $4.4 million with respect to outstanding awards. Of this expense $3.0 million related to costs from awards made under the 2016 Long Term Incentive Plan, $0.8 million from awards made in September 2018 under the 2018 Plan and $0.6 million from awards made in January 2019 under the 2018 Plan. The entirety of this cost related to recurring costs, with the September 2018 award scheme expense impacted by movements in the stock price between the start of the period and May 14, 2019, the date the scheme was formally approved by stockholders. Following approval, the cost was no longer impacted by stock price movements and was charged by the same method as all other award plans. During the six months ended June 30, 2018, the charge for stock-based compensation was $2.7 million, all of which related to awards made under the 2016 Long Term Incentive Plan and to recurring costs.

Acquisition related transaction expenses

Acquisition related transaction expenses increased by $1.3 million in the period to $1.6 million. The entirety of the 2019 and 2018 period expenses were related to work in respect of potential acquisitions with the 2019 spend relating to the proposed acquisition of Novomatic UK's Gaming Technology Group.

Depreciation and amortization

Depreciation and amortization decreased by $3.0 million, or 13.7%, on a reported basis, to $18.8 million. This included the impact of favorable currency movements of $1.2 million.

On a functional currency at constant rate basis, depreciation and amortization decreased by $1.7 million, or 8.0%. This decrease was driven by lower machine and machine-related depreciation on SBG of $1.5 million and lower amortization on Virtual Sports of $0.4 million, driven by lower amortization of platforms and games due to an impairment of an intangible fixed asset in the prior year and lower amortization on SBG of $0.1 million. The machine and machine-related depreciation decrease was driven by lower depreciation in the UK ($2.4 million) and Italy ($0.5 million) due to machines being fully depreciated, which was partly offset by additional depreciation in Greece of $1.5 million due to the additional volume of machines.

Net operating loss

During the period on a reported basis, net operating profit reduced from a profit of $0.8 million to a loss of $5.2 million. On a functional currency at constant rate basis, net operating profit reduced by $6.4 million, mainly due to the reduction in revenue and increases in stock-based compensation and acquisition related transaction expenses. This was partly offset by savings in cost of sales, depreciation and amortization and SG&A expenses as well as by a $0.5 million favorable currency movement. The net impact of the Triennial Implementation in the UK for the period (included in the $6.4 million) was $4.0 million. However, this net impact is anticipated to be reduced in future periods as further cost savings are implemented and we see the benefit of reduced costs and machines available for harvesting and sale from store closures and associated returned machines.

Interest expense

Interest expense decreased by $1.8 million in the period, to $8.5 million, on a reported basis. Of this variance, $0.6 million was due to a favorable currency movement. On a functional currency at a constant rate basis, interest expense was $1.2 million, or 12.0%, lower than the prior year. Savings of $4.0 million of PIK interest (no longer incurred following the debt refinancing in August 2018) and lower revolver interest of $0.4 million were offset by an increase of $2.1 million of cash interest charge due to a higher debt balance amount and a $1.0 million increase in amortization of capitalized debt fees.

Change in fair value of earnout liability

Due solely to changes in the share price ($6.51 at March 25, 2019 and $4.80 at December 31, 2018) the charge in the six months ended June 30, 2019 from a change in the fair value of earnout liability was $2.3 million. On March 25, 2019, the shares relating to the earnout liability were issued. In the prior period, due to changes in share price, the corresponding figure was a $3.1 million gain.

Change in fair value of derivative liability

Change in fair value of derivative liability decreased by $1.6 million, to a $0.1 million charge for the six months ended June 30, 2019 arising from the fair valuing of the cross-currency swaps executed in August 2018 in connection with the debt refinancing of the Company. This represents the unhedged amount of the cross-currency swap. For the six months ended June 30, 2018, the change in fair value of derivative liability was a $1.6 million gain for derivative awards which were converted to stock-based compensation awards in March 2018.

Other finance income

Other finance income for the six months ended June 30, 2019 was a gain of $0.3 million, $0.1 million less than the previous year. Changes in exchange rates resulted in a loss of $0.4 million in retranslating the debt balance. This was partly offset by a $0.2 million gain from the GBP: USD cross currency swap entered into to mitigate this impact, accounted for under hedge accounting, and a $0.1 million higher pension interest gain.

Income tax expense

Our effective tax rate for the period ended June 30, 2019 was 0.0%, and our effective tax rate for the period ended June 30, 2018 was 2.8%.

Net loss

On a reported basis, net loss increased by $11.2 million, from a loss of $4.5 million to a loss of $15.7 million in the period ended June 30, 2019. On a functional currency at constant rate basis net loss increased by $12.3 million, mainly due to the increase in net operating loss and $7.1 million change in fair value of earnout and derivative liabilities. This was partly offset by the $1.2 million decrease in interest expense as well as by favorable currency movement of $1.1 million.

Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018 –
Server Based Gaming Segment

SBG segment, Key Performance Indicators

SBG

	For the Six-Month Period ended		Variance	
	Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	2019 vs 2018	%
End of period installed base (# of terminals)	35,077	32,579	2,498	7.7%
Average installed base (# of terminals)	35,099	31,387	3,712	11.8%
Customer Gross Win per unit per day (1)	£ 88.68	£ 113.38	£ (24.70)	(21.8)%
Customer Net Win per unit per day (1)	£ 62.42	£ 80.88	£ (18.46)	(22.8)%
Inspired Blended Participation Rate	6.2%	6.0%	0.2%	

(1) Includes all SBG terminals in which the company takes a participation revenue share across all territories

SBG segment, key events that affected results for the Six Months ended June 30, 2019

During the period Customer Gross Win per unit per day in the total UK market (including non-LBO UK markets) decreased by 19.0%. This was due mainly to the Triennial Implementation outcome in the UK. The revenue impact of this regulatory change was in line with our expectations.

During the period, an additional 185 SSBTs were sold and deployed in the UK LBO market. There is also a strong order book for this product for the second half of the year. In addition to hardware sale margin, these terminals also generate a recurring service fee.

In the UK Casino market, we sold 138 “Flex” B3 terminals to a major customer. These terminals were all installed by the end of May 2019 and will generate a recurring software rental fee and content revenue share to the Company in future periods.

In the UK Electronic Table Games (ETG) market, we sold 114 “Sabre Hydra” terminals to a major Casino customer with a further 100 planned during H2 2019.

Our SBG rollout into the Greek market continued during the period with a further 500 being deployed on site and live. The total installed base of our contracted terminals in Greece is now over 7,300 as of June 30, 2019. However, during the period Inspired was awarded a further 580 contracted VLTs, 380 of which will be our new “Valor VIP” cabinet. This brings the total number of our contracted terminals in Greece to 8,940. Despite increased density, the performance of our Greek terminals continues to be strong against our competitors.

In Italy, customer Net Win per unit per day (in EUR) decreased by €11, or 24.7%, due to an increase in revenue tax of 1.9% from 6.8% in 2018 to 8.7% in 2019

Overall, the size of our Installed Base at the end of the period increased 7.7%, to 35,077, due to our continued terminal rollout in Greece, growth from new contract awards in the UK LBO estate and further machine growth in Italy. Customer Gross Win per unit per day (in our functional currency, GBP) decreased by 21.8% across the entire estate, driven mainly by the reduction in maximum permitted bets on B2 gaming machines in the UK and impact of our SBG installations in Greece, as our Greek machines return a lower daily Customer Gross Win compared to our UK machines. These impacts, along with a 1.9% increase in the Italian tax rate, led to a Net Win per unit per day decrease of 22.8%. Our blended participation rate increased to 6.2% from 6.0% for the same period last year

SBG Segment, Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018

Server Based Gaming

	For the Six-Month Period ended				Variance		
(In millions)	**Unaudited Jun 30, 2019**	**Unaudited Jun 30, 2018**	**Variance 2019 vs 2018**		**Functional Currency at Constant rate**	**Functional Currency**	**Currency Movement**
Revenue:							
Service	$ 37.2	$ 48.1	$ (10.9)	(22.7)%	$ (8.6)	(17.8)%	$ (2.4)
Hardware	4.0	6.6	(2.7)	(40.1)%	(2.4)	(36.9)%	(0.2)
Total revenue	**41.2**	**54.7**	**(13.6)**	**(24.8)%**	**(11.0)**	**(20.1)%**	**(2.6)**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(8.8)	(9.3)	0.5	(5.7)%	(0.1)	1.3%	0.6
Cost of hardware	(2.6)	(6.2)	3.5	(57.0)%	3.3	(54.3)%	0.2
Total cost of sales	**(11.4)**	**(15.4)**	**4.0**	**(26.1)%**	**3.2**	**(20.8)%**	**0.8**
Selling, general and administrative expenses	(12.6)	(16.8)	4.2	(24.8)%	3.3	(20.0)%	0.8
Stock-based compensation	(0.9)	(0.6)	(0.3)	50.0%	(0.4)	71.7%	0.1
Depreciation and amortization	(14.9)	(17.5)	2.6	(14.9)%	1.6	(9.3)%	1.0
Net operating profit	**$ 1.4**	**$ 4.4**	**$ (3.1)**	**(69.6)%**	**$ (3.2)**	**(69.7)%**	**$ 0.1**
Exchange Rate - $ to £	*1.30*	*1.38*					

SBG segment revenue. In the period revenue decreased by $13.6 million, to $41.2 million, on a reported basis. This decrease was due in part to adverse currency movements of $2.6 million. On a functional currency at constant rate basis, SBG revenue decreased by $11.0 million, or 20.1%.

Service revenue decreased by $10.9 million on a reported basis. This was due in part to adverse currency movements of $2.4 million. On a functional currency at constant rate basis, SBG service revenue decreased by $8.6 million, or 17.8%, to $37.2 million. This was primarily due to a decrease in revenue in the UK LBO market of $6.0 million, of which $5.5 million was driven by the Triennial Implementation and $0.5 million due to the expiring of a service contract. Additionally, there was a reduction in the Greek market of $2.0 million driven by a reduction in software license sales (partly offset by the continued terminal rollout which drove additional income), a decrease in revenue in the Italian market of $0.1 million due to $0.2 million from lower sales of machine parts and the 1.9% tax increase (partly offset by $0.3 million of license sales).

Although SBG service revenue decreased in the period, SBG recurring revenue as a percentage of total SBG revenue increase by 7.7% to 78.9%.

The continued terminal rollout into the Greek market drove additional participation revenue of $1.2 million and other recurring revenue of $1.6 million. This was offset by a $4.8 million reduction in software license sales compared to last year.

UK LBO Customer Gross Win per unit per day reduced by 22.3% due to the Triennial Implementation, effective as of April 1, 2019. The revenue impact of this regulatory change was in line with our expectations. The decline in Gross win has improved by 6.5% in the last three months from a 44.5% decline in the first month of the new permitted bets to a 38.0% decline in June.

Hardware revenue decreased by $2.7 million to $4.0 million, on a reported basis. On a functional currency at constant rate basis, SBG hardware revenue decreased by $2.4 million, principally due to lower Flex terminal sales (the sales last year were all at nil margin) and lower SSBT sales in the UK market driving a variance of $4.5 million. This was partly offset by higher ETG sales of the Sabre Hydra terminal of $2.0 million.

SBG segment operating income. Cost of sales (excluding depreciation and amortization) decreased by $4.0 million to $11.4 million, on a reported basis. This variance was impacted by favorable currency movements of $0.8 million. On a functional currency at constant rate basis, cost of sales decreased by $3.2 million. This was principally due to a decrease in hardware costs of $3.3 million driven by lower hardware sales in in the UK market, partly offset by higher ETG hardware sales and higher service costs of $0.1 million. Service costs increased due to an increase in Greek SBG service costs of $0.7 million driven by the increase in terminals as the Greece rollout continued, an increase in content costs in the UK market of $0.1 million and an increase in other costs in the UK market of $0.1 million. These increases were partly offset by a decrease in UK consumables of $0.4 million, a decrease in cost of service in Italy of $0.1 million and a decrease of $0.3 million due to lower software license sales in Greece.

SG&A expenses decreased by $4.2 million, to $12.6 million, on a reported basis. Of this variance, $0.8 million arose from favorable currency movements. This resulted in a functional currency at constant rate decrease of $3.3 million driven by staff-related cost savings of $3.3 million (of which $1.3 million was made in conjunction with the Triennial Implementation), lower IT-related costs of $0.3 million driven by lower headcount, lower costs of group restructure of $0.6 million and other cost savings of $0.5 million. This was partly offset by $1.5 million of lower labor capitalization and manufacturing recoveries due to lower factory throughput.

These costs of group restructure include redundancy costs, Payments In Lieu of Notice costs, any associated employer taxes and costs associated with onerous property leases. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save ongoing future costs. These costs were primarily incurred in connection with the property consolidation.

Depreciation and amortization decreased by $2.6 million, to $14.9 million on a reported basis. Of this amount, $1.0 million was due to favorable currency movements. On a functional currency at constant rate basis, the decrease was $1.6 million, driven by $1.5 million from lower machine and machine-related depreciation and by $0.1 million of lower amortization. The lower machine and machine-related depreciation was driven by lower depreciation in the UK ($2.4 million) and Italy ($0.5 million) due to machines being fully depreciated, partly offset by the additional machine and machine-related depreciation in Greece of $1.5 million due to the additional terminals in the Greek market.

Operating profit decreased by $3.1 million, to $1.4 million, on a reported basis. On a functional currency at constant rate basis, SBG operating profit decreased by $3.2 million. This was primarily due to the decrease in revenue and higher stock-based compensation of $0.4 million, partly offset by lower cost of sales, SG&A expenses, depreciation and amortization and $0.1 million from favorable currency movements.

SBG segment, Recurring Revenue

Set forth below is a breakdown of our SBG recurring revenue. SBG recurring revenue consists principally of SBG participation revenue.

(In £ millions)	For the Six-Month Period ended Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	Variance 2019 vs 2018	%
SBG Recurring Revenue				
Total SBG Revenue	£ 31.7	£ 39.7	£ (8.0)	(20.1)%
SBG Participation Revenue	£ 24.6	£ 27.8	£ (3.2)	(11.6)%
SBG Other Fixed Fee Recurring Revenue	£ 0.5	£ 0.5	£ (0.0)	(2.9)%
Total SBG Recurring Revenue	£ 25.0	£ 28.3	£ (3.2)	(11.4)%
SBG Recurring Revenue as a Percentage of Total SBG Revenue	78.9%	71.2%	7.7%	

For definitions of the terms used in the table above, see the definitions provided under the corresponding "SBG segment, Recurring Revenue" table for the three-month periods ended June 30, 2019 and 2018, set forth earlier in this Management's Discussion and Analysis section

SBG segment, Service Revenue by Region

Set forth below is a breakdown of our SBG service revenue by geographic region. SBG service revenue consists principally of SBG participation revenue.

Server Based Gaming Service Revenue by Region

(In millions)	For the Six-Month Period ended Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	Variance 2019 vs 2018		Variance: Functional Currency at Constant rate	Functional Currency	Currency Movement
Service Revenue:							
UK LBO	$ 21.9	$ 29.4	$ (7.5)	(25.5)%	$ (6.0)	(20.6)%	$ (1.4)
UK Other	2.6	3.0	(0.4)	(14.0)%	(0.2)	(8.1)%	(0.2)
Italy	4.3	4.7	(0.4)	(8.2)%	(0.1)	(2.0)%	(0.3)
Greece	8.0	10.4	(2.4)	(23.5)%	(2.0)	(19.2)%	(0.4)
Rest of the World	0.4	0.6	(0.2)	(31.2)%	(0.2)	(26.8)%	(0.0)
Total service revenue	**$ 37.2**	**$ 48.1**	**$ (10.9)**	**(22.7)%**	**$ (8.6)**	**(17.8)%**	**$ (2.4)**
Exchange Rate - $ to £	*1.30*	*1.38*					

Virtual Sports Segment*, *Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018

Virtual Sports segment, Key Performance Indicators

Virtuals

	For the Six-Month Period ended						
		Unaudited Jun 30, 2019		Unaudited Jun 30, 2018	Variance 2019 vs 2018		
							%
No. of Live Customers at the end of the period		105		95		10	10.5%
Average No. of Live Customers		102		92		10	10.7%
Total Revenue (£'m)	£	14.9	£	14.2	£	0.6	4.4%
Total Virtual Sports Recurring Revenue (£'m)	£	13.6	£	12.6	£	1.0	7.7%
Total Revenue £'m - Retail	£	8.2	£	8.9	£	(0.7)	(7.8)%
Total Revenue £'m - Scheduled Online Virtuals	£	5.3	£	4.1	£	1.2	29.1%
Total Revenue £'m - Interactive	£	1.4	£	1.3	£	0.1	8.9%
Average Revenue Per Customer per day (£)	£	797	£	855	£	(58)	(6.8)%

For definitions of the terms used in the table above, see the definitions provided under the corresponding "Virtual Sports segment, Key Performance Indicators" table for the three-month periods ended June 30, 2019 and 2018, set forth earlier in this Management's Discussion and Analysis section.

Virtual Sports segment, Recurring Revenue

	For the Six-Month Period ended						
(In £ millions)		Unaudited Jun 30, 2019		Unaudited Jun 30, 2018	Variance 2019 vs 2018		
							%
Virtual Sports Recurring Revenue							
Total Virtual Sports Revenue	£	14.9	£	14.2	£	0.6	4.4%
Recurring Revenue - Retail and Scheduled Online Virtuals	£	12.2	£	11.3	£	0.9	8.1%
Recurring Revenue - Interactive	£	1.3	£	1.3	£	0.1	4.2%
Total Virtual Sports Recurring Revenue	£	13.6	£	12.6	£	1.0	7.7%
Virtual Sports Recurring Revenue as a Percentage of Total Virtual Sports Revenue		91.3%		88.4%		2.8%	

For definitions of the terms used in the table above, see the definitions provided under the corresponding "Virtual Sports segment, Recurring Revenue" table for the three-month periods ended June 30, 2019 and 2018, set forth earlier in this Management's Discussion and Analysis section.

Virtual Sports segment, key events that affected results for the Six Months ended June 30, 2019

During the period, we launched two streams of our Rush Football 2 product with The Stars Group brand Betstars. We also launched Rush Football 2 with the Moroccan Lottery via the Intralot platform in approximately 200 venues. In the UK we deployed our Rush Bingo product on a dedicated channel to the Betfred estate of approximately 1,600 venues. We also deployed Virtual Horses, Dogs and Football (Soccer) via our proprietary Virtuals Connect platform with Genting Online. In Ireland, we launched a fourth channel of Virtual Horses with Boylesports. In Romania, we launched Rush Football 2™ with Superbet.

During the period we renewed our contract with Bet365 for a further three years to provide scheduled Virtuals online with the world's largest online sports betting company with over 35 million customers worldwide.

Inspired was named Virtual Supplier of the Year at the Gaming International Awards held at ICE 2019 and at the EGR B2B awards which were held in June 2019.

During the period our interactive division launched with six new customers, including in New Jersey and the UK. We also launched new content, including Bear Money™ and Book of the Irish™, across the estate, which have performed strongly.

During the period we signed a new contract with the British Columbia Lottery Corporation to supply Virtuals on demand, slots and table content via our proprietary Virgo platform.

The Average Number of Live Customers during the period increased by ten, from 92 to 102. Including the launch of six new Interactive customers, all of which were launched via the NYX platform, taking our Average Number of Live Interactive Customers for the period to 40.

Despite a decrease in Average Revenue per Customer per Day due to the rephasing of the annual contract with a major customer. However, we have extended the contract for a further two-year term and we should see some benefit in the fourth quarter. Virtual Sports recurring revenue as a percentage of total Virtual Sports revenue increased by 2.8% to 91.3%.

Virtual Sports segment, Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018

Virtual Sports

	For the Six-Month Period ended				Variance		
(In millions)	Unaudited Jun 30, 2019	Unaudited Jun 30, 2018	Variance 2019 vs 2018		Functional Currency at Constant rate	Functional Currency	Currency Movement
Service Revenue	**$ 19.2**	**$ 19.7**	**$ (0.4)**	**(2.1)%**	**$ 0.9**	**4.4%**	**$ (1.3)**
Cost of Service	(1.9)	(2.6)	0.7	(27.2)%	0.6	(23.4)%	0.1
Selling, general and administrative expenses	(4.3)	(5.3)	1.0	(18.9)%	0.7	(13.5)%	0.3
Stock-based compensation	(0.6)	(0.5)	(0.1)	20.0%	(0.2)	49.2%	0.1
Depreciation and amortization	(2.9)	(3.6)	0.7	(18.4)%	0.4	(11.4)%	0.3
Net operating profit	**$ 9.5**	**$ 7.7**	**$ 1.9**	**24.0%**	**$ 2.3**	**30.3%**	**$ (0.5)**
Exchange Rate - $ to £	*1.30*	*1.38*					

Virtual Sports segment revenue. In the period revenue decreased by $0.4 million, or 2.1%, on a reported basis. This decrease includes the impact of adverse currency movements of $1.3 million. On a functional currency at constant rate basis, Virtual Sports revenue increased by $0.9 million, or 4.4%.

This increase was driven by an increase in Virtual Sports land-based and online recurring revenue, due to continued revenue growth in the UK of $0.7 million and Italy of $0.1 million, as well as growth in existing customers and new customer launches in the rest of the world of $0.7 million. Additionally, we generated one-off income during the period from historic recurring revenue previously unreported to us of $0.8 million across Virtual and Interactive customers. This was partly offset by the reduction of long-term Virtual Sports contracts of $0.5 million, which have now been fully amortized and a reduction of $0.4 million due to the rephasing of the annual contract with a major customer. Therefore, underlying revenue increased by $0.9 million.

Virtual Sports segment operating income. Cost of service decreased by $0.7 million, to $1.9 million, on a reported basis. Of this decrease, $0.1 million arose from favorable currency movements. On a functional currency at constant rate basis, cost of service decreased by $0.6 million.

SG&A expenses decreased by $1.0 million on a reported basis. Of this decrease, $0.3 million arose from favorable currency movements. This resulted in a functional currency at constant rate decrease of $0.7 million largely driven by staff-related cost savings of $0.7 million.

Depreciation and amortization decreased by $0.7 million, to $2.9 million, on a reported basis. Of this decrease, $0.3 million was due to favorable currency movements. This resulted in a functional currency at constant rate decrease of $0.4 million, driven by lower amortization of platforms and games due to an impairment of an intangible fixed asset in the prior year.

Operating profit increased by $1.9 million, on a reported basis to $9.5 million, which includes a negative impact of $0.5 million from adverse currency movements. On a functional currency at constant rate basis, this represented an increase of $2.3 million, or 30.3%. This was driven by an increase in revenue, a decrease of cost of service, lower SG&A expenses and lower depreciation and amortization, partly offset by $0.2 million of higher stock-based compensation.

Non-GAAP Financial Measures

We use certain non-GAAP financial measures, including EBITDA and Adjusted EBITDA, to analyze our operating performance. We use these financial measures to manage our business on a day-to-day basis. We believe that these measures are also commonly used in our industry to measure performance. For these reasons, we believe that these non-GAAP financial measures provide expanded insight into our business, in addition to standard U.S. GAAP financial measures. There are no specific rules or regulations for defining and using non-GAAP financial measures, and as a result the measures we use may not be comparable to measures used by other companies, even if they have similar labels. The presentation of non-GAAP financial information should not be considered in isolation from, or as a substitute for, or superior to, financial information prepared and presented in accordance with U.S. GAAP. You should consider our non-GAAP financial measures in conjunction with our U.S. GAAP financial measures.

We define our non-GAAP financial measures as follows:

EBITDA is defined as net loss excluding depreciation and amortization, interest expense, interest income and income tax expense.

Adjusted EBITDA is defined as net loss excluding depreciation and amortization, interest expense, interest income and income tax expense, and other additional exclusions and adjustments. Such additional excluded amounts include stock-based compensation U.S. GAAP charges where the associated liability is expected to be settled in stock, and changes in the value of earnout liabilities and income and expenditure in relation to legacy portions of the business (being those portions where trading no longer occurs) including closed defined benefit pension schemes. Additional adjustments are made for items considered outside the normal course of business, including (1) restructuring costs, which include charges attributable to employee severance, management changes, restructuring, dual running costs, costs related to facility closures and integration costs, (2) merger and acquisition costs and (3) gains or losses not in the ordinary course of business.

We believe Adjusted EBITDA, when considered along with other performance measures, is a particularly useful performance measure, because it focuses on certain operating drivers of the business, including sales growth, operating costs, selling and administrative expense and other operating income and expense. We believe Adjusted EBITDA can provide a more complete understanding of our operating results and the trends to which we are subject, and an enhanced overall understanding of our financial performance and prospects for the future. Adjusted EBITDA is not intended to be a measure of liquidity or cash flows from operations or a measure comparable to net income or loss, because it does not take into account certain aspects of our operating performance (for example, it excludes non-recurring gains and losses which are not deemed to be a normal part of underlying business activities). Our use of Adjusted EBITDA may not be comparable to the use by other companies of similarly termed measures. Management compensates for these limitations by using Adjusted EBITDA as only one of several measures for evaluating our operating performance. In addition, capital expenditures, which affect depreciation and amortization, interest expense, and income tax benefit (expense), are evaluated separately by management.

Adjusted Revenue (Revenue Excluding Nil Margin Hardware Sales) is defined as revenue excluding hardware sales that are sold at nil margin with the intention of securing longer term recurring revenue streams.

Functional Currency at Constant rate. Currency impacts shown have been calculated as the current-period average GBP: USD rate less the equivalent average rate in the prior period, multiplied by the current period amount in our functional currency (GBP). The remaining difference, referred to as functional currency at constant rate, is calculated as the difference in our functional currency, multiplied by the prior-period average GBP: USD rate, as a proxy for functional currency at constant rate movement.

Currency Movement represents the difference between the results in our reporting currency (USD) and the results on a functional currency at constant rate basis.

Reconciliations from net loss, as shown in our Consolidated Statements of Operations and Comprehensive Loss, to Adjusted EBITDA are shown below.

Reconciliation to Adjusted EBITDA

(In millions)	For the Three-Month Period ended Unaudited Jun 30, 2019	For the Three-Month Period ended Unaudited Jun 30, 2018
Net loss	$ (10.7)	$ (4.0)
Items Relating to Legacy Activities:		
Pension charges [1]	0.1	0.1
Items outside the normal course of business:		
Costs of group restructure [3]	1.1	1.7
Transaction fees [4]	0.7	0.0
Stock-based compensation expense	2.3	1.5
Depreciation and amortization	9.1	10.6
Total other expense, net	6.1	5.6
Income tax	0.1	0.0
Adjusted EBITDA	**$ 8.9**	**$ 15.5**
Adjusted EBITDA	**£ 6.9**	**£ 11.4**
Exchange Rate - $ to £ [5]	*1.29*	*1.36*

(In millions)	For the Six-Month Period ended Unaudited Jun 30, 2019	Unaudited Jun 30, 2018
Net loss	$ (15.7)	$ (4.5)
Items Relating to Legacy Activities:		
Pension charges (1)	0.3	0.3
Litigation Settlement (2)	-	0.3
Items outside the normal course of business:		
Costs of group restructure (3)	2.7	1.9
Transaction fees (4)	1.6	0.2
Stock-based compensation expense	4.4	2.7
Depreciation and amortization	18.8	21.7
Total other expense, net	10.5	5.2
Income tax	(0.0)	0.1
Adjusted EBITDA	**$ 22.6**	**$ 27.9**
Adjusted EBITDA	**£ 17.4**	**£ 20.3**
Exchange Rate - $ to £ (5)	*1.30*	*1.38*

Notes to table:

(1) "Pension charges" are profit and loss charges included within selling, general and administrative expenses, relating to a defined benefit scheme which was closed to new entrants in 1999 and to future accrual in 2010. As well as the amortization of net loss, the figure also includes charges relating to the Pension Protection Fund (which were historically borne by the pension scheme) and a small amount of associated professional services expenses. These costs are included within Central Functions.

(2) "Litigation Settlement" refers to settlement of an employment related litigation with the former general counsel of Hydra Industries Acquisition Corp.

(3) "Costs of group restructure" include redundancy costs, Payments In Lieu of Notice costs, any associated employer taxes and costs associated with onerous property leases. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save ongoing future costs. These costs were primarily incurred in connection with the property consolidation.

(4) Transaction fees, Stock-based compensation expense, Depreciation and amortization, Total other expense, net and Income tax are as described above in the Results of Operations line item discussions. Total expense, net includes interest income, interest expense, change in fair value of earnout liability, change in fair value of derivative liability and other finance income.

(5) Exchange rate in the table is calculated by dividing the USD Adjusted EBITDA by the GBP Adjusted EBITDA, therefore this could be slightly different from the average rate during the period depending on timing of transactions

Reconciliation to Adjusted Revenue

(In millions)	For the Three-Month Period ended Unaudited Jun 30, 2019	For the Three-Month Period ended Unaudited Jun 30, 2018
Net revenues	$ 26.7	$ 36.9
Less Nil Margin Sales	-	(0.4)
Adjusted Revenue	**$ 26.7**	**$ 36.5**
Adjusted Revenue	**£ 20.8**	**£ 26.9**
Exchange Rate - $ to £	$ 1.29	$ 1.36

(In millions)	For the Six-Month Period ended Unaudited Jun 30, 2019	For the Six-Month Period ended Unaudited Jun 30, 2018
Net revenues	$ 60.4	$ 74.4
Less Nil Margin Sales	-	(4.0)
Adjusted Revenue	**$ 60.4**	**$ 70.4**
Adjusted Revenue	**£ 46.6**	**£ 51.1**
Exchange Rate - $ to £	$ 1.30	$ 1.38

We believe that accounting for nil margin hardware sales in conformance with U.S. GAAP can result in a distorted presentation of our revenue and growth. Therefore, we use Revenue Excluding Nil Margin Sales, or Adjusted Revenue, to internally analyze our operating performance.

Liquidity and Capital Resources

Six Months ended June 30, 2019 compared to Six Months ended June 30, 2018

	Period Ended		Variance
(in millions)	**Jun 30, 2019**	**Jun 30, 2018**	**2019 to 2018**
Net loss	$ (15.7)	$ (4.5)	$ (11.2)
Non-cash interest expense including amortization of fees	0.9	3.9	(3.0)
Change in fair value of derivative and earnout liabilities and stock-based compensation expense	6.8	(1.9)	8.7
Impairment expense	0.0	0.0	0.0
Foreign currency translation on senior bank debt and cross currency swaps	(0.3)	0.0	(0.3)
Depreciation and amortization	18.8	21.7	(2.9)
Other net cash generated/(utilized) by operating activities	9.2	(1.3)	10.5
Net cash provided by operating activities	19.7	17.9	1.8
Net cash used in investing activities	(9.8)	(21.3)	11.5
Net cash generated by financing activities	9.0	2.9	6.1
Effect of exchange rates on cash	(1.2)	(0.3)	(0.9)
Net increase in cash and cash equivalents	$ 17.7	$ (0.8)	$ 18.5

Net cash provided by operating activities. In the period, net cash inflow generated by operating activities was $19.7 million, compared to $17.9 million inflow in the prior year, representing a $1.8 million improvement in cash generation.

Non-cash interest expense decreased by $3.0 million to $0.9 million. The current period's non-cash interest expense related to amortization of debt fees incurred in relation to the business refinancing in August 2018 whereas the prior year's expense related to PIK interest charged on the debt held prior to the refinancing.

Change in fair value of derivative and earnout liabilities and stock-based compensation expense increased by $8.7 million, from an outflow of $1.9 million to an inflow of $6.8 million. Movements in the market value of the stock price resulted in a $5.4 million higher earnout inflow in the current period, a $1.7 million higher inflow relating to stock-based compensation expense and a higher inflow of $1.6 million due to the outflow in the prior period relating to derivative liabilities.

Foreign currency translation on senior bank debt and cross currency swaps following the refinancing on August 14, 2018 resulted in a loss in the period of $0.3 million as a result of the movement in exchange rates during the current period.

Depreciation, amortization and impairment reduced by $2.9 million to a charge of $18.8 million, due principally to lower machine depreciation of $2.0 million and lower development costs and licenses amortization of $0.9 million.

Other net cash generated by operating activities increased by $10.5 million, to a $9.2 million inflow. The strong performance in the first half of the year compared to the prior year was driven by several factors. Improved collection of accounts receivable in the current year $6.3 million and low capital spend resulted in cash growth also aided by favorable timing of payroll payment $1.9 million. The prior year included the build and roll out of the second phase of Greece machines and the subsequent inventory requirement impacted the comparative working capital figures by $1.6 million and payroll taxes due on RSU awards vesting in December 2017 had a $1.3 million working capital impact. The Greece roll out in the prior year also resulted in an increased deferred revenue creditor benefitting the prior year cash generated by operating activities by $4.5 million. The current year has seen an unwind of $2.6 million as the creditor is credited to the profit and loss account.

Net cash used in investing activities. Net cash used in investing activities decreased by $11.5 million to $9.8 million. The decrease was attributable to lower levels of machine spending compared to the prior year which included the Greece roll out and Flex 4k terminal build.

Net cash generated by financing activities. In the current period, net cash generated by financing activities was $9.0 million, compared to a $2.9 million in the prior year. This was due to an increase in the level of revolver utilization in the current year with the intention of enabling a Euro currency purchase to hedge on the Euro purchase price of the proposed acquisition of Novomatic UK's Gaming Technology Group.

Funding Needs and Sources

To fund our obligations, we have historically relied on a combination of cash flows provided by operations and the incurrence of additional debt or the refinancing of existing debt. As of June 30, 2019, we had liquidity of $33.7 million in cash and cash equivalents. This compares to $10.2 million of cash and cash equivalents plus a further $6.6 million of an undrawn revolver facility at the end of last year. We had a working capital inflow of $9.2 million in 2019, compared to a $1.3 million outflow in the prior year. The level of our working capital surplus or deficit varies with the level of machine production we are undertaking and our capitalization. In periods with minimal machine volumes and capital spend, our working capital is more stable. In periods where significant numbers of machines are being produced, the levels of inventory and creditors are higher than typical and there is a natural timing difference between converting the stock into sellable or capitalized plant and settling payments to suppliers. These factors, along with movements in trading activity levels, can result in significant working capital volatility. In periods of low activity, our working capital volatility is reduced. Working capital is reviewed and managed with the aim of ensuring that current liabilities are covered by the level of cash held and the expected level of short-term receipts.

Significant amounts of our cash flows from operations arise from our operations in Greece. As of June 30, 2019, $2.9 million of our $33.7 million of cash and cash equivalents had arisen in Greece and was being held in our Greek bank accounts. In the ordinary course of business, we seek from time to time to transfer funds earned in Greece to accounts of ours outside Greece. However, Greece imposes capital controls that may complicate, delay or prevent the flow of capital out of that country. Historically, we have always been able to complete such transfers. Nevertheless, if approvals of our transfers of funds out of Greece are ever materially delayed or prevented, our cash planning and our ability to deploy cash across our operations could be adversely affected.

Management currently believes that the Company's cash balances on hand, cash flows expected to be generated from operations, ability to control and defer capital projects and amounts available from the Company's external borrowings will be sufficient to fund the Company's net cash requirements through August 2020.

The Company has undertaken a review of its operations in order to enable it to reduce its global costs and to more effectively align its resources with its business priorities. In connection with this review, the Company is in the process of consolidating and relocating certain of its operations in the UK and has implemented, and expects to continue to implement, a related reduction in headcount. These changes continue the Company's prior cost control efforts. Office consolidation expenses are expected to amount to approximately $7.7 million in total, as we expect to incur approximately $2.3 million of capital investment for the new office, and approximately $5.4 million of one-time costs to exit offices. These figures include costs relating to staff redundancy, relocation allowances, travel supplements, dual running costs, recruitment fees of replacement hires and dilapidating old facilities. We expect the majority of these costs to be incurred during 2019.

Long Term and Other Debt

(In millions)		June 30, 2019				June 30, 2018		
Cash held	£	26.5	$	33.7	£	7.7	$	10.2
Revolver drawn		(7.3)		(9.3)		(12.3)	$	(16.3)
Original principal senior debt		(110.0)		(140.0)		(72.5)	$	(95.7)
Compounded PIK interest		0.0		0		(12.1)	$	(15.9)
PIK interest accrued		0.0		0		(0.5)	$	(0.6)
Cash interest accrued		(0.1)		(0.1)		(0.6)	$	(0.8)
Finance lease creditors		(0.1)		(0.2)		(0.5)	$	(0.7)
Total	£	(91.0)	$	(115.9)	£	(90.8)	$	(119.9)

During August 2018, the Company and certain of its subsidiaries entered into a series of transactions that effected the refinancing of the Company's external borrowings, replacing the Company's senior term and revolving facilities, originally entered into in 2014, with senior notes of $140.0 million and a revolving credit facility of £7.5 million (equivalent to approximately $9.5 million). The senior notes have a 5-year duration and carry a cash interest rate of 9% plus 3-month LIBOR, and the revolving credit facility has a 3-year duration and carries a cash interest rate on any utilization at 4% plus 3-month LIBOR, with any unutilized amount carrying a 1.4% cash interest cost. In connection with the refinancing, the Company also entered into a three-year, fixed-rate, cross-currency swap. For further information regarding the new external borrowings and the swap, see Note 12 to the Consolidated Financial Statements, "Long Term and Other Debt".

As of June 30, 2019, the Company had bank facilities of £117.5 million (equivalent to approximately $149.5 million), consisting of a senior term loan facility of £110.0 million (equivalent to $140.0 million) and a revolving credit facility of £7.5 million (equivalent to approximately $9.5 million). As of June 30, 2019, the term loan facility imposed a cash interest rate on outstanding borrowings equal to the base rate margin of 9.00% per annum, plus 3-month LIBOR which at June 30, 2019 was the equivalent of 11.33% per annum which under the cross-currency swaps executed was reduced to a rate of 10.87%. The term loan facility is scheduled to mature on August 13, 2023.

As of June 30, 2018, the Company had bank facilities of £90.0 million (equivalent to approximately $118.1 million), consisting of a senior term loan facility of £72.5 million (equivalent to $95.7 million) and a revolving credit facility of £17.5 million (equivalent to approximately $23.1 million). As of June 30, 2018, the term loan facility imposed a cash interest rate on outstanding borrowings equal to the base rate margin of 7.00% per annum, plus the higher of 3.00% and LIBOR. The current rate at which cash interest accrued was 10.00% per annum. In addition, as of June 30, 2018, the term loan facility imposed PIK interest at a rate of 7.00% per annum on the outstanding borrowings, which amount is added to the total principal outstanding. The term loan facility was fully repaid on August 13, 2018 as part of the series of transactions that effected the refinancing of the Company's external borrowings.

As of June 30, 2019, the Company had aggregate borrowings under the revolving credit facility of £7.3 million (equivalent to $9.3 million). As of June 30, 2019, the revolving credit facility imposed a cash interest rate on outstanding borrowings equal to the base rate margin of 4.00% per annum, plus LIBOR, and the current rate at which cash interest accrued was 4.72% per annum. In addition, a commitment fee was payable with respect to unutilized borrowing capacity at a rate of 1.40% per annum. The revolving credit facility is scheduled to mature on August 13, 2021. In addition to the revolving credit facility borrowings described above, further amounts under the facility have been used for the Company's VAT Duty Deferment guarantee and the Company's credit card program.

As of June 30, 2018, the Company had aggregate borrowings under the revolving credit facility of £12.3 million (equivalent to $16.3 million). As of June 30, 2018, the revolving credit facility imposed a cash interest rate on outstanding borrowings equal to the base rate margin of 5.00% per annum, plus LIBOR, and the current rate at which cash interest accrued was 5.49% per annum. In addition, a commitment fee was payable with respect to unutilized borrowing capacity at a rate of 2.00% per annum. The revolving credit facility was fully repaid on August 13, 2018 as part of the series of transactions that effected the refinancing of the Company's external borrowings.

In addition to the revolving credit facility borrowings described above, further amounts under the facility have been used for the Company's VAT Duty Deferment guarantee and the Company's credit card program. The amount used as of June 30, 2019 and 2018 was $0.2 million.

Debt issuance fees were capitalized at the time the debt was issued. As of June 30, 2019, the amount of debt issuance fees capitalized was $9.2 million, including $2.8 million of original issue discount and $4.2 million of exit premium and the remainder being professional fees incurred from the refinancing. Of the total debt issuance fees capitalized, $1.6 million had been charged by June 30, 2019.

On June 11, 2019, the Company announced that it entered into an agreement to acquire Novomatic UK's Gaming Technology Group. The acquisition, which is subject to the approvals of regulatory authorities and other customary closing conditions, is expected to close during the third quarter of 2019. The cost of the acquisition, excluding fees, is the Euro equivalent of $120 million. In conjunction with the proposed acquisition, all existing indebtedness of the Company is expected to be refinanced with a £220 million loan (made up of £ and Euro components) and a £20 million revolver facility. Commitments have been obtained for this financing, which is expected to provide a lower cost of debt for the group with an extended maturity date.

Debt Covenants

Under our debt facilities in place as of June 30, 2019, we are subject to covenant testing at quarterly intervals. The covenant testing is set at the level of Inspired Entertainment Inc., the ultimate holding company, and consists of a test on Leverage (Consolidated Total Debt/Consolidated Adjusted EBITDA). A further covenant test of Fixed Charge Coverage Ratio (Net Cash Provided by Operating Activities/Calculation of Consolidated Fixed Charges) is required, commencing on September 30, 2019. These are measured under U.S. GAAP. In addition to the quarterly tests, there is the requirement that the minimum liquidity not be less than $5.0 million.

Under our debt facilities in place as of June 30, 2018, we were subject to covenant testing at quarterly intervals. The covenant testing was set at the level of DMWSL 631 Limited, an intermediate holding company above all trading companies, and consisted of tests on Leverage (Net Debt/EBITDA), Interest Cover (EBITDA/Interest Costs) and Super Senior Leverage (Net Debt + Revolver/EBITDA). These were measured under UK generally accepted accounting principles. In addition to the quarterly tests, there was an annual requirement that no more than £3 million be spent on non-machine capital additions, excluding labor capitalization. All of our operations are included within the DMWSL 631 Limited group, except for certain overhead and director fees and expenses, non-recurring costs relating to the Business Combination and the movement in stock-based compensation expense and fair values on earnout and derivative liabilities. The costs of these items in the period ended June 30, 2018 were $4.8 million, $0.6 million and -$5.7 million.

There were no breaches of the debt covenants in the periods ended June 30, 2019 and June 30, 2018.

Liens and Encumbrances

As of June 30, 2019, our senior bank debt was secured by the imposition of a fixed and floating charge in favor of the lender over all the assets of the Company and certain of the Company's subsidiaries.

Contractual Obligations

As of June 30, 2019, our contractual obligations were as follows:

Contractual Obligations (in millions)	Total	Less than 1 yr	1-3 years	3-5 years	More than 5 yrs
Operating activities					
Interest on long term debt (net of cross currency swaps)	$ 31.6	$ 0.7	$ 12.8	$ 18.1	$ -
Financing activities					
Revolver repayment	9.3	9.3	-	-	-
Senior bank debt - principal repayment	140.0	-	-	140.0	-
Cross currency swaps in respect of interest on long term debt	34.8	15.5	19.3	-	-
Finance lease payments	0.2	0.2	-	-	-
Interest on non-utilisation fees	0.3	0.1	0.2	-	-
Total	$ 216.2	$ 25.8	$ 32.3	$ 158.1	$ -

Recent US Tax Law Changes

In light of the recent US tax reforms and specifically those around GILTI (Global Intangible Low Taxed Income), we may be required to pay additional US corporate income tax beginning in the year ending December 31, 2021 due to the location of assets and tax losses brought forward in the UK.

Off-Balance Sheet Arrangements

As of June 30, 2019, there were no off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, promulgated by the U.S. Securities and Exchange Commission.

Critical Accounting Policies

The preparation of our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenue and expenses, and our disclosure of commitments and contingencies at the date of the consolidated financial statements. On an on-going basis, we evaluate our estimates and judgments. We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry and current and expected economic conditions, that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary. While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

For a discussion of other recently issued accounting standards, and assessments as to their impacts on the Company, see Nature of Operations, Management's Plans and Summary of Significant Accounting Policies, Note 1 to the consolidated financial statements included elsewhere in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risks are our exposure to changes in interest rates and foreign currency exchange rates.

Interest Rate Risk

We have external borrowings that are subject to the risk of higher interest charges associated with increases in interest rates. As of June 30, 2019, we had £110.0 million ($140.0 million) of senior bank debt that is subject to a floating interest rate charge that can vary with the 3-month LIBOR rate. If the floating interest rates increased by 1%, the additional interest charge would be approximately $0.7 million. If the floating interest rates increased by 5%, the additional interest charge would be approximately $3.5 million.

In connection with its August 2018 debt refinancing, the Company also entered into a three-year, fixed-rate, cross-currency swap which is designed to negate the impact of any interest rate increases. For further information regarding the new external borrowings and the swap, see Note 12 to the Consolidated Financial Statements, "Long Term and Other Debt".

Foreign Currency Exchange Rate Risk

Our operations are conducted in various countries around the world and we receive revenue and pay expenses from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in (i) currencies other than GBP, which is our functional currency, or (ii) the functional currencies of our subsidiaries, which is not necessarily GBP. Excluding intercompany balances, our Euro functional currency net assets total approximately $2.2 million and our US Dollar functional currency net liabilities total approximately $141.0 million. We use a sensitivity analysis model to measure the impact of a 10% adverse movement of foreign currency exchange rates against the US Dollar. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of June 30, 2019 would result in translation adjustments of approximately $0.2 million and $14.1 million, respectively, recorded in other comprehensive loss. Of the $141.0 million, cross-currency swaps have been executed on $140.0 million to mitigate the risk of adverse movements in the value of the US Dollar relative to GBP which would reduce the translation adjustment impact.

Included within our trading results are earnings outside of our functional currency. Retained earnings earned in Euros and in US Dollars in the period ended June 30, 2019 were €0.5 million and $9.3 million, respectively. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of June 30, 2019 would result in translation adjustments of approximately $0.0 million and $0.8 million, respectively, recorded in trading operations.

The majority of the Company's trading is in GBP, the functional currency, although the reporting currency of the Company is the US Dollar. As such, changes in the GBP:USD exchange rate have an effect on the Company's results. A 10% weakening of GBP against the US Dollar would change the trading operational results by approximately $0.7 million and would result in translation adjustments of approximately $12.0 million, recorded in other comprehensive loss.

In connection with its August 2018 debt refinancing, the Company also entered into a three-year, fixed-rate, cross-currency swap.

For further information regarding the new external borrowings and the swap, see Note 12 to the Consolidated Financial Statements, "Long Term and Other Debt".

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer (together, the "Certifying Officers"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of June 30, 2019, the end of the period covered by this Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in lawsuits and legal proceedings arising in the ordinary course of business. While we believe that, currently, we have no such matters that are material, there can be no assurance that existing or new matters arising in the ordinary course of business will not have a material adverse effect on our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

The risk factors set forth below update the corresponding risk factor in our Annual Report on Form 10-K for the year ended September 30, 2018 and sets forth certain additional risk factors. You should carefully consider the risk factors discussed below and in our most recent Annual Report on Form 10-K, which could materially affect our business, financial position and results of operations.

We rely on a relatively small number of customers for a significant portion of our sales, and the loss of, or material reduction in, sales to any of our top customers could have an adverse effect on our business, results of operations, financial condition and prospects.

Certain key customers, including certain UK, Italian and Greek SBG terminal customers and certain Virtual Sports customers, make a significant contribution to our revenues and profitability. Our top ten customers generated approximately 75% of total revenues in each of the three and six months ended June 30, 2019, respectively. During the three months ended June 30, 2019, there were three customers that each represented at least 10% of our revenues, accounting for 19%, 16% and 10% of our revenues, respectively. During the six months ended June 30, 2019, there were three customers that each represented at least 10% of our revenues, accounting for 21%, 15% and 11% of our revenues, respectively. We expect that these customers will continue to represent a significant portion of our sales in the future. The loss of any of our top customers, whether through contract expiry and non-renewal, breach of contract or other factors could materially adversely affect our revenues or return on capital and leave us with surplus terminals. Moreover, if any of these customers experience reduced revenue, such reduction could adversely affect any revenue-sharing arrangements we may have with those customers, reduce our own revenues and adversely affect our financial results.

We operate in an industry that is subject to strict government regulations that could limit our existing operations and have a negative impact on our ability to grow.

In certain jurisdictions, forms of wagering, betting and lottery may be expressly authorized and governed by law and in other jurisdictions forms of wagering, betting and lottery may be expressly prohibited by law. If expressly authorized, such activities are typically subject to extensive and evolving governmental regulation. Gaming regulatory requirements vary from jurisdiction to jurisdiction. Therefore, we are subject to a wide range of complex gaming laws, rules and regulations in the jurisdictions in which we are licensed or may seek to be licensed. Most jurisdictions require that we are licensed or authorized, that our key personnel and certain of our security holders are found to be suitable or are licensed, and that our products are reviewed, tested and certified or approved before placement. If a license, approval, certification or finding of suitability is required by a regulatory or national authority and we fail to seek or do not receive the necessary approval, license, certification or finding of suitability, or if it is revoked, then we may be prohibited from distributing our products for use in the respective jurisdiction. Additionally, such prohibition could trigger reviews of our Company by regulatory bodies in other jurisdictions and adversely affect our ability to obtain or retain the required licenses and approvals in those jurisdictions.

The regulatory environment in any particular jurisdiction is subject to change, and any such change could have an adverse effect on our results of operations or business in general. Moreover, there can be no assurance that the operation of Server Based Gaming terminals, Video Lottery Terminals, Virtual Sports betting, lottery or other forms of wagering systems, or the content delivered by the means of those systems, will be approved, certified or found suitable by jurisdictions into which we might seek to expand or that those jurisdictions in which these activities are currently permitted will continue to permit such activities in their existing forms or at all. While we believe that we have the means to continue to develop procedures and policies designed to monitor and comply with the requirements of evolving laws, there can be no assurance that law enforcement agencies, governmental agencies or gaming regulatory authorities, whether in existing or new jurisdictions, will not seek to restrict our business or otherwise institute enforcement proceedings or bring other legal claims against the Company. Moreover, in addition to the risk of such enforcement actions or claims, our business reputation may be adversely affected in the event any legal or regulatory investigations or proceedings are instituted, whether or not we are ultimately subject to any claims or found to have committed any violations.

We supply our products to operators of gaming venues, platforms and websites which typically must themselves be licensed by gaming regulators. If any one of these operators fails to maintain its gaming licenses, or violates gaming laws or regulations, our business may suffer, due to our loss of a viable customer and, in instances where we have a revenue-sharing arrangement with the operator, due to our loss of our share of the revenue generated by that operator's business.

We supply certain of our products to operators who operate gaming websites. Some of those operators may take bets from customers in markets where no gaming laws or regulations exist and where the provision of online gaming is effectively unregulated. Although the Company seeks to ensure that its customers only take bets in markets where online gaming is legal, those operators may potentially be subject to investigatory or enforcement action for operating in jurisdictions where online gaming is not expressly permitted, which could result in the operator suffering interventions ranging from special conditions being applied to its licenses, license suspension or license loss, or the operator otherwise withdrawing from or curtailing its activities in any such market. Any such developments could adversely affect such operator's revenues and in turn adversely affect our earnings from such operator.

The Company is itself subject to regulatory investigations from time to time, and may be subject to enforcement action. In addition, certain jurisdictions may impose liability on suppliers for the activities of their customers if the use of the products supplied violate applicable law. In addition, we are required from time to time to install technologies or controls in order to comply with new regulations applicable to our business in one or more jurisdictions in which we operate. We seek to protect ourselves against any such liability by reason of the activities of the operators we supply, including by contractually requiring those operators not to operate in certain territories and limiting our operator base to those entities we have reviewed with respect to their standards of regulatory and legal compliance. Nonetheless, there is a risk that we may fail to undertake sufficient due diligence or fail to receive accurate information on which to conduct our due diligence. We may become subject to investigatory or enforcement action should we or any of our customers be accused of breaching any regulations or laws. Any such action may adversely affect our standing with gaming regulators and our ability to obtain and retain required licenses and other approvals in other jurisdictions.

We may be required to obtain and maintain licenses and certifications from various state and local jurisdictions in order to operate certain aspects of our business and we and our key personnel and certain security holders may be subject to extensive background investigations and suitability standards. We may also become subject to regulation in any other jurisdiction where our customers are permitted to operate in the future. Licenses and ongoing regulatory compliance can be costly. There can be no assurance that we will be able to obtain new licenses or renew any of our existing licenses, and the loss, denial or non-renewal of any of our licenses could have an adverse effect on our business. Generally, regulatory authorities have broad discretion when granting, renewing or revoking approvals and licenses. Our failure, or the failure of any of our key personnel, systems or machines, in obtaining or retaining a required license or approval in one jurisdiction could have a negative impact on our ability (or the ability of any of our key personnel, systems or gaming machines) to obtain or retain required licenses and approvals in other jurisdictions. The failure to obtain or retain a required license or approval in any jurisdiction would decrease the geographic area where we may operate and generate revenues, decrease our share in the gaming marketplace and put us at a disadvantage compared with our competitors. In addition, the levy of substantial fines or forfeiture of assets could significantly harm our business, financial condition and results of operations.

Some jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage of equity securities of licensed or regulated businesses. The failure of beneficial owners of our common stock to submit to such background checks and provide required disclosure could jeopardize our business. In light of these regulations and the potential impact on our business, our second amended and restated certificate of incorporation provides for the prohibition of stock ownership by persons or entities who fail to comply with informational or other regulatory requirements under applicable gaming law, who are found unsuitable to hold our stock by gaming authorities or whose stock ownership adversely affects our ability to obtain, maintain, renew or qualify for a license, contract, franchise or other regulatory approval from a gaming authority. The licensing procedures and background investigations of the authorities that regulate our businesses and the proposed amendment may inhibit potential investors from becoming significant stockholders or inhibit existing stockholders from retaining or increasing their ownership.

Our businesses are subject to a number of federal, state, local and foreign laws and regulations governing data privacy and security, including with respect to the collection, storage, use, transmission and protection of personal information and other consumer data. In particular, the EU has adopted strict data privacy regulations. Following recent developments such as the European Court of Justice's 2015 ruling that the transfer of personal data from the EU to the U.S. under the EU/U.S. Safe Harbor was an invalid mechanism of personal data transfer, the adoption of the EU-U.S. Privacy Shield as a replacement for the Safe Harbor, and the upcoming effective date of the EU's General Data Protection Regulation, data privacy and security compliance in the EU are increasingly complex and challenging. The scope of data privacy and security regulations continues to evolve, and we believe that the adoption of increasingly restrictive regulations in this area is likely within the U.S. and other jurisdictions. Compliance with data privacy and security restrictions could increase the cost of our operations and failure to comply with such restrictions could subject us to criminal and civil sanctions as well as other penalties.

We are subject to the provisions of the UK Bribery Act 2010, the U.S. Foreign Corrupt Practices Act and other anti-corruption laws. The UK Bribery Act generally prohibits giving a financial or other advantage to another person with the intention of inducing that person to improperly perform a relevant function or activity. The U.S. Foreign Corrupt Practices Act generally prohibits U.S. persons and companies and their agents from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business. Certain of these anti-corruption laws also contain provisions that require accurate record keeping and further require companies to devise and maintain an adequate system of internal accounting controls. Because a significant percentage of our revenue derives from foreign sources, and our business activities involve continuing relationships with governmental regulators, there exists a risk that certain provisions of these anti-corruption laws may be breached. We are also subject to anti-money laundering and anti-terrorist financing laws and regulations, and to economic and trade sanctions programs administered by the Office of Foreign Assets Control (OFAC) in the United States relating to our ability to engage in transactions with entities that are domiciled in countries or territories subject to comprehensive OFAC trade sanctions (currently, Cuba, Iran, North Korea, Syria, and Crimea), or that are included on OFAC's list of Specially Designated Nationals and Blocked Persons. Although we have policies and controls in place that are designed to ensure compliance with these laws, if those controls are ineffective or an employee or intermediary fails to comply with the applicable regulations, we may be subject to criminal and civil sanctions as well as other penalties. Any such violation could disrupt our business and adversely affect our reputation, results of operations, cash flows and financial condition.

We review and develop our internal compliance programs in an effort to ensure that we comply with legal requirements imposed in connection with our business activities. The compliance program is run on a day-to-day basis by our in-house legal department with compliance and technical advice provided by our compliance manager and outside professionals. There can be no assurance that such steps will prevent the violation of one or more laws or regulations, or that a violation by us or an employee will not result in the imposition of administrative, civil and even criminal sanctions, monetary fines or suspension or revocation of one or more of our licenses.

We have operations in a variety of countries, which subjects us to additional risks.

We are a global business and derived substantially all of our revenue outside the United States during the three and six months ended June 30, 2019. During the three months ended June 30, 2019, we earned approximately 58% of our revenue in the UK, 18% in Greece, 16% in Italy and the remaining 8% across the rest of the world. During the six months ended June 30, 2019, we earned approximately 62% of our revenue in the UK, 16% in Greece, 14% in Italy and the remaining 8% across the rest of the world. Our business in foreign markets subjects us to risks customarily associated with such operations, including:

- foreign withholding taxes on, or bank regulatory restrictions on expatriating, our subsidiaries' earnings, that could reduce cash flow available to enable us to meet our required debt service and other obligations;

- the complexity of foreign laws, regulations and markets;
- the impact of foreign labor laws and disputes;
- limitations on our ability to manage our foreign operations and to monitor our customers' or our partners' activities and financial condition;
- the impact of price controls, capital controls and any local difficulties in collecting accounts receivable and transferring earnings to other jurisdictions, including, without limitation, the impact of the capital controls imposed in Greece in 2015 as a consequence of its financial crisis, which can complicate and delay our transfer of earnings out of Greece;
- recent gaming tax increases in Italy;
- other economic, tax and regulatory policies of foreign governments; and
- our ability to attract and retain key personnel in foreign jurisdictions.

Our consolidated financial results are significantly affected by foreign currency exchange rate fluctuations. Foreign currency exchange rate exposures arise from current transactions and anticipated transactions denominated in currencies other than U.S. Dollars, and from the translation of foreign currency balance sheet accounts into GBP-denominated or USD-denominated balance sheet accounts. Exposure to currency exchange rate fluctuations exists and will continue because a significant portion of our revenues are denominated in currencies other than the USD, particularly GBP and the Euro. Exchange rate fluctuations have in the past adversely affected operating results and cash flows and may continue to adversely affect results of operations and cash flows and the value of assets.

As a result of the geographic concentration of our operations in the UK, Greece and Italy, our operating results and cash flow depend significantly on economic conditions and the other factors listed above in these market areas. There can be no assurance that we will be able to operate on a continuing successful basis in these markets or in any combination of different geographical markets.

Changes to U.S. tax laws may impose additional costs on the Company.

The U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") in December 2017. The Tax Act includes significant changes to the U.S. corporate income tax system including, among other things, lowering the U.S. statutory federal tax rate to 21%. The Tax Act also adds many new provisions, including a tax on global intangible low-taxed income ("GILTI"). The changes included in the Tax Act are broad and complex. In light of the changes set forth in the Tax Act, and specifically GILTI, we may be required to pay additional U.S. corporate income tax beginning in the year ending December 31, 2021 due to the location of assets and tax losses brought forward in the UK. There can be no assurance that future changes to U.S. tax laws will not result in additional costs to the Company.

Risks Related to the Acquisition of the Novomatic UK Gaming Technology Group

The completion of our proposed acquisition of the Gaming Technology Group of Novomatic UK Ltd. ("Novomatic"), which we refer to as the Acquisition, is subject to conditions and if these conditions are not satisfied or waived, the Acquisition will not be completed. Failure to consummate the Acquisition could negatively impact our stock price and our future business and financial results.

On June 11, 2019, we announced that our indirect wholly owned subsidiary, Inspired Gaming (UK) Ltd. (the "Buyer"), had entered into a Share Purchase Agreement (the "SPA") with Novomatic, pursuant to which the Buyer agreed to purchase the Gaming Technology Group of Novomatic (the "Acquired Companies"). Consummation of the Acquisition is subject to the satisfaction of certain closing conditions, including, among others: (i) no event or circumstance (or combination thereof) occurring (a) on or after the date of the SPA or (b) before the date of the SPA and which would have constituted a breach of certain of Novomatic's representations and warranties but which the Buyer was not aware of, which (in each case) is, or is reasonably likely to be materially adverse (i.e., being of a value of at least 20% of the Acquired Companies' 2018 revenue after taking into account certain adjustments) to the business, operations, assets, liabilities or financial condition, results or prospects of the Acquired Companies and their subsidiaries taken as a whole, taking into account only events or circumstances to the extent that they have a disproportionate effect on the Acquired Companies and their subsidiaries compared to other participants in the industries in which the Acquired Companies operate (a "material adverse change") and (ii) the occurrence of any of the following by March 11, 2020: confirmation from the UK Competition and Markets Authority (the "CMA") that it does not intend to launch a merger inquiry where the CMA does launch a Phase 1 merger inquiry, determination by the CMA that it is not under a duty to refer the Acquisition to an in-depth investigation (a "Phase 2 Reference"); the Buyer receiving confirmation there will not be a Phase 2 Reference following acceptance by the CMA of undertakings proposed by the Buyer; or where the CMA launches a Phase 2 reference, the Buyer receiving written confirmation from the CMA that the Acquisition is not expected to result in a substantial lessening of competition (the "Competition Condition").

The failure of one or more of the required conditions to be satisfied could delay the completion of the Acquisition for a significant period of time or prevent it from occurring, and we cannot otherwise guarantee that we will be able to complete the Acquisition. If the Acquisition is not completed for any reason, our ongoing business may be adversely affected and, without realizing any of the benefits of having completed the Acquisition, we will be subject to a number of risks, including the following:

- the price of our common stock may reflect a market assumption that the Acquisition will occur, meaning that a failure to complete the Acquisition could result in a decline in the price of our common stock;
- time and resources, financial and other, committed by our management to matters relating to the Acquisition could otherwise have been devoted to pursuing other potentially beneficial opportunities for our company;
- we may experience negative reactions from the financial markets or from our customers or employees; and
- we will be required to pay our respective costs relating to the Acquisition, including legal, accounting, financial advisory, and other fees, whether or not the Acquisition is completed.

We also could be subject to litigation related to any failure to complete the Acquisition or to perform our obligations under the SPA, or related to any enforcement proceeding commenced against us. If the Acquisition is not consummated, these risks may materialize and may adversely affect our business, financial results and stock price.

We will incur substantial direct and indirect costs as a result of the Acquisition.

We will incur substantial expenses in connection with and as a result of completing the Acquisition and, over a period of time following the completion of the Acquisition, we expect to incur substantial additional expenses in connection with coordinating the businesses, operations, policies and procedures of the combined company. While we have assumed that a certain level of transaction expenses will be incurred, factors beyond our control could affect the total amount or the timing of these expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately.

Combining the two companies may be more difficult, costly or time consuming than we anticipate and we may not realize the intended benefits of the Acquisition.

The businesses that comprise the Gaming Technology Group have been operated by Novomatic within a number of separate subsidiary entities and until the completion of the Acquisition, will continue to operate independently of us. These businesses have had their own corporate cultures, location, employees and systems. The success of the Acquisition, including anticipated benefits, will depend, in part, on our ability to successfully combine and integrate our business with the Gaming Technology Group. As a result of the Acquisition, we will operate our existing business, along with the Gaming Technology Group, as one combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices. There may be substantial difficulties, costs and delays involved in the integration of our business with the Gaming Technology Group, including as a result of challenges relating to the diversion of management's attention from our ongoing business, the possibility of faulty assumptions underlying expectations regarding the integration process, retaining and attracting business and operational relationships, eliminating duplicative operations and inconsistent standards and procedures and increased or unforeseen liabilities or costs relating to the Acquisition or the Gaming Technology Group. If we experience difficulties with the integration process, the anticipated benefits of the Acquisition may not be realized fully or at all, or may take longer to realize than expected, which could materially and adversely affect our business, financial condition and results of operations.

If goodwill or other intangible assets that we record in connection with the Acquisition become impaired, our financial position in future periods could be negatively impacted.

In connection with the accounting for the Acquisition, it is expected that we will record a significant amount of intangible assets and may also record goodwill. Under GAAP, we must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Events giving rise to impairment are an inherent risk in the gaming industry and cannot be predicted. Our results of operations and financial position in future periods could be negatively impacted should future impairments of intangible assets or goodwill occur.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit Number	Description
2.1	Share Purchase Agreement, dated June 11, 2019, by and between Inspired Gaming (UK) Limited and Novomatic UK Ltd., incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of the Company, filed on June 11, 2019.
10.1	Commitment Letter, dated June 11, 2019, by and among Gaming Acquisitions Limited, Nomura International plc and Macquarie Corporate Holdings Pty Limited (UK Branch), incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed on June 11, 2019.
10.2	Amendment, dated April 24, 2019, to Revolving Facility Agreement dated August 13, 2018, among Inspired Entertainment, Inc., the Parties Listed as Original Borrowers, the Parties Listed as Original Guarantors, Lloyds Bank PLC and Cortland Capital Market Services LLC, as Security Agent, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Company, filed on May 10, 2019.
31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1**	Certification of Principal Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2**	Certification of Principal Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

	INSPIRED ENTERTAINMENT, INC.
Date: August 12, 2019	/s/ A. Lorne Weil
	Name: A. Lorne Weil Title: Executive Chairman (Principal Executive Officer)
Date: August 12, 2019	/s/ Stewart F.B. Baker
	Name: Stewart F.B. Baker Title: Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, A. Lorne Weil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Inspired Entertainment, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2019

/s/ A. Lorne Weil

A. Lorne Weil
Executive Chairman
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Stewart F.B. Baker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Inspired Entertainment, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2019

/s/ Stewart F.B. Baker

Stewart F.B. Baker
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Inspired Entertainment, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, A. Lorne Weill, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

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

2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Dated: August 12, 2019

By: /s/ A. Lorne Weil
A. Lorne Weil
Executive Chairman
(Principal Executive Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request

EXHIBIT 32.2

18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Inspired Entertainment, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Stewart F.B. Baker, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: August 12, 2019

By: /s/ Stewart F.B. Baker
Stewart F.B. Baker
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.