**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 March 31, 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**<br>(State or other jurisdiction of incorporation or organization) | **47-1025534**<br>(I.R.S. Employer Identification Number) |
| **250 West 57th Street, Suite 2223**<br>**New York, NY**<br>(Address of principal executive offices) | **10107**<br>(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 May 8, 2019, there were 22,818,071 shares of the Company's common stock issued and outstanding.

**TABLE OF CONTENTS**

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| | *(Unaudited)* | |
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 19,033 | $ 22,451 |
| Accounts receivable, net | 14,127 | 14,302 |
| Inventory, net | 4,436 | 5,210 |
| Fair value of hedging instrument | 700 | 747 |
| Prepaid expenses and other current assets | 14,557 | 15,842 |
| **Total current assets** | 52,853 | 58,552 |
| | | |
| Property and equipment, net | 35,594 | 45,707 |
| Software development costs, net | 39,180 | 39,998 |
| Other acquired intangible assets subject to amortization, net | 4,084 | 5,723 |
| Goodwill | 45,779 | 45,818 |
| Other assets | 10,164 | 12,114 |
| **Total assets** | $ 187,654 | $ 207,912 |
| | | |
| **Liabilities and Stockholders' Deficit** | | |
| **Current liabilities** | | |
| Accounts payable | $ 10,185 | $ 14,400 |
| Accrued expenses | 13,386 | 14,354 |
| Earnout liability | — | 8,021 |
| Corporate tax and other current taxes payable | 1,651 | 2,047 |
| Deferred revenue, current | 10,129 | 9,194 |
| Other current liabilities | 2,939 | 3,851 |
| Current portion of capital lease obligations | 274 | 474 |
| **Total current liabilities** | 38,564 | 52,341 |
| | | |
| Long-term debt | 131,904 | 131,225 |
| Capital lease obligations, net of current portion | 1 | 69 |
| Deferred revenue, net of current portion | 19,733 | 23,946 |
| Derivative liability | 6,145 | 7,764 |
| Other long-term liabilities | 4,531 | 5,034 |
| **Total liabilities** | 200,878 | 220,379 |
| | | |
| **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 March 31, 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 March 31, 2019 and September 30, 2018, respectively | 2 | 2 |
| Additional paid in capital | 340,210 | 328,452 |
| Accumulated other comprehensive income | 55,747 | 58,580 |
| Accumulated deficit | (409,183) | (399,501) |
| **Total stockholders' deficit** | (13,224) | (12,467) |
| **Total liabilities and stockholders' deficit** | $ 187,654 | $ 207,912 |

*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 INCOME (LOSS)**
**(in thousands, except share and per share data)**
**(Unaudited)**

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Revenue: | | |
| Service | $ 30,793 | $ 33,233 |
| Hardware | 2,878 | 4,220 |
| **Total revenue** | 33,671 | 37,453 |
| | | |
| Cost of sales, excluding depreciation and amortization: | | |
| Cost of service | (5,361) | (6,017) |
| Cost of hardware | (1,648) | (4,067) |
| Selling, general and administrative expenses | (14,740) | (15,622) |
| Stock-based compensation expense | (2,080) | (1,251) |
| Acquisition related transaction expenses | (844) | (228) |
| Depreciation and amortization | (9,700) | (11,120) |
| **Net operating loss** | (702) | (852) |
| | | |
| **Other (expense) income** | | |
| Interest income | 33 | 93 |
| Interest expense | (4,498) | (5,162) |
| Change in fair value of earnout liability | (2,263) | 3,754 |
| Change in fair value of derivative liability | 1,220 | 1,553 |
| Other finance income | 1,164 | 199 |
| | | |
| **Total other (expense) income, net** | (4,344) | 437 |
| | | |
| **Loss before income taxes** | (5,046) | (415) |
| Income tax benefit (expense) | 93 | (83) |
| **Net loss** | (4,953) | (498) |
| | | |
| **Other comprehensive (loss)/income:** | | |
| Foreign currency translation (loss)/gain | (484) | 298 |
| Change in fair value of hedging instrument | (2,123) | — |
| Reclassification of gain on hedging instrument to comprehensive income | 1,473 | — |
| Actuarial gains on pension plan | 893 | 1,302 |
| **Other comprehensive (loss)/income** | (241) | 1,600 |
| | | |
| **Comprehensive (loss)/income** | $ (5,194) | $ 1,102 |
| | | |
| **Net loss per common share – basic and diluted** | $ (0.24) | $ (0.02) |
| | | |
| **Weighted average number of shares outstanding during the period – basic and diluted** | 20,959,626 | 20,855,124 |

*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 MARCH 31, 2019**
**(in thousands, 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** | **$ 2** | **$ 328,452** | **$ 58,580** | **$ (399,501)** | **$ (12,467)** |
| Foreign currency translation adjustments | — | — | — | (6) | — | (6) |
| Actuarial losses on pension plan | — | — | — | (2,825) | — | (2,825) |
| Change in fair value of hedging instrument | — | — | — | 2,601 | — | 2,601 |
| Reclassification of gain on hedging instrument to comprehensive income | — | — | — | (2,362) | — | (2,362) |
| Shares issued upon net settlement of RSUs | 9,806 | — | (4) | — | — | (4) |
| Stock-based compensation expense | — | — | 1,407 | — | — | 1,407 |
| Net loss | — | — | — | — | (4,729) | (4,729) |
| **Balance at December 31, 2018** | **20,870,397** | **$ 2** | **$ 329,855** | **$ 55,988** | **$ (404,230)** | **$ (18,385)** |
| Foreign currency translation adjustments | — | — | — | (484) | — | (484) |
| Actuarial gains on pension plan | — | — | — | 893 | — | 893 |
| Change in fair value of hedging instrument | — | — | — | (2,123) | — | (2,123) |
| Reclassification of gain on hedging instrument to comprehensive income | — | — | — | 1,473 | — | 1,473 |
| Shares issued on earnout | 1,323,558 | — | 8,616 | — | — | 8,616 |
| Stock-based compensation expense | — | — | 1,739 | — | — | 1,739 |
| Net loss | — | — | — | — | (4,953) | (4,953) |
| **Balance at March 31, 2019** | **22,193,955** | **$ 2** | **$ 340,210** | **$ 55,747** | **$ (409,183)** | **$ (13,224)** |

*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 MARCH 31, 2018**
**(in thousands, 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** | **$ 2** | **$ 323,429** | **$ 53,145** | **$ (378,905)** | **$ (2,329)** |
| Foreign currency translation adjustments | — | — | — | 124 | — | 124 |
| Actuarial losses on pension plan | — | — | — | (2,046) | — | (2,046) |
| Shares issued on exercise of warrants | 50 | — | 1 | — | — | 1 |
| Shares issued upon cashless exercise of RSUs | 445,723 | — | (1,043) | — | — | (1,043) |
| Stock-based compensation expense | — | — | 783 | — | — | 783 |
| Reclassification of RSUs to derivative liability due to modification | — | — | (1,482) | — | — | (1,482) |
| Net loss | — | — | — | — | (4,155) | (4,155) |
| **Balance as of December 31, 2017** | **20,848,375** | **$ 2** | **$ 321,688** | **$ 51,223** | **$ (383,060)** | **$ (10,147)** |
| Foreign currency translation adjustments | — | — | — | 298 | — | 298 |
| Actuarial gains on pension plan | — | — | — | 1,302 | — | 1,302 |
| Shares issued upon cashless exercise of RSUs | 12,216 | — | — | — | — | — |
| Stock-based compensation expense | — | — | 956 | — | — | 956 |
| Reclassification of RSUs from derivative liability due to stockholder approval of Second Incentive Plan | — | — | 2,848 | — | — | 2,848 |
| Net loss | — | — | — | — | (498) | (498) |
| **Balance as of March 31, 2018** | **20,860,591** | **2** | **325,492** | **52,823** | **(383,558)** | **(5,241)** |

*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 thousands)**
**(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (4,953) | $ (498) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,700 | 11,120 |
| Stock-based compensation expense | 2,080 | 1,251 |
| Change in fair value of derivative liability | (1,220) | (1,553) |
| Change in fair value of earnout liability | 2,263 | (3,754) |
| Foreign currency translation on senior bank debt | (2,855) | — |
| Foreign currency translation on cross currency swaps | 1,678 | — |
| Non-cash interest expense relating to senior debt | 626 | 1,957 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,347) | (1,223) |
| Inventory | 764 | (1,445) |
| Prepaid expenses and other assets | 1,891 | 1,688 |
| Corporate tax and other current taxes payable | (288) | (1,579) |
| Accounts payable | 4,406 | 1,881 |
| Other current liabilities | — | 150 |
| Deferred revenues and customer prepayment | (3,518) | 721 |
| Accrued expenses | 672 | (635) |
| Other long-term liabilities | (604) | (1,412) |
| **Net cash provided by operating activities** | 8,295 | 6,669 |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (1,325) | (2,095) |
| Purchases of capital software | (3,861) | (5,026) |
| **Net cash used in investing activities** | (5,186) | (7,121) |
| **Cash flows from financing activities:** | | |
| Repayments of capital leases | (164) | (195) |
| Proceeds from issuance of revolver and long-term debt | — | 3,247 |
| **Net cash (used in) provided by financing activities** | (164) | 3,052 |
| Effect of exchange rate changes on cash | 100 | (170) |
| Net increase in cash | 3,045 | 2,430 |
| Cash, beginning of period | 15,988 | 10,989 |
| **Cash, end of period** | $ 19,033 | $ 13,419 |
| **Supplemental cash flow disclosures** | | |
| Cash paid during the period for interest | $ 4,023 | $ 120 |
| Cash paid during the period for income taxes | $ — | $ — |
| **Supplemental disclosure of noncash investing and financing activities** | | |
| Additional paid in capital reclassified from derivative liability | $ — | $ 2,848 |

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

## 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 March 31, 2019, the Company's cash on hand was $19,033 and the Company had working capital of $14,289. As of March 31, 2019, $1,863 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 $4,953 and $498 for the three months ended March 31, 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 $14,289 includes a non-cash settled item of $10,129 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 May 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 three-month period from January 1, 2019 to March 31, 2019 is the first quarter 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 months ended March 31, 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.

(in thousands, except share and per share data)

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:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Trade receivables | $ 16,741 | $ 17,791 |
| Less: long-term receivable recorded in other assets | (1,934) | (2,209) |
| Other receivables | 74 | 103 |
| Allowance for doubtful accounts | (754) | (1,383) |
| **Total accounts receivable, net** | $ 14,127 | $ 14,302 |

## 3. Inventory

Inventory consists of the following:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Component parts | $ 3,446 | $ 3,647 |
| Finished goods | 990 | 1,563 |
| **Total inventories** | $ 4,436 | $ 5,210 |

(in thousands, except share and per share data)

Component parts include parts for gaming terminals. Included in component parts are reserves for excess and slow-moving inventory of $463 and $469 as of March 31, 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:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Prepaid expenses and other assets | $ 4,212 | $ 5,071 |
| Unbilled accounts receivable | 10,345 | 10,771 |
| **Total prepaid expenses and other assets** | $ 14,557 | $ 15,842 |

## 5. Property and Equipment, net

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Short-term leasehold property | $ 361 | $ 361 |
| Video lottery terminals | 118,914 | 121,760 |
| Computer equipment | 8,741 | 8,685 |
| Plant and machinery | 1,778 | 2,508 |
| | 129,794 | 133,314 |
| Less: accumulated depreciation and amortization | (94,200) | (87,607) |
| | $ 35,594 | $ 45,707 |

Depreciation and amortization expense amounted to $4,765 and $5,266 for the three months ended March 31, 2019 and 2018, respectively.

## 6. Software Development Costs, net

Software development costs, net consisted of the following:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Software development costs | $ 108,073 | $ 100,856 |
| Less: accumulated amortization | (68,893) | (60,858) |
| | $ 39,180 | $ 39,998 |

During the three months ended March 31, 2019 and 2018, the Company capitalized $3,700 and $4,337 of software development costs, respectively. Amounts in the above table include $1,061 and $1,335 of internal use software at March 31, 2019 and September 30, 2018, respectively.

The total amount of software costs amortized was $4,110 and $4,635 for the three months ended March 31, 2019 and 2018, respectively. Software costs written down to net realizable value amounted to $0 and $342 for the three ended March 31, 2019 and 2018, respectively. The weighted average amortization period was 3.1 years and 3.2 years for the three months ended March 31, 2019 and 2018, respectively.

(in thousands, except share and per share data)

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

| **Year ending December 31,** | | |
|---|---|---|
| 2019 (nine months) | $ | 11,002 |
| 2020 | | 13,680 |
| 2021 | | 8,354 |
| 2022 | | 3,964 |
| 2023 | | 1,878 |
| Thereafter | | 302 |
| Total | $ | 39,180 |

## 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.

| | | March 31, 2019 | | September 30, 2018 |
|---|---|---|---|---|
| Trademarks | $ | 17,620 | $ | 17,635 |
| Customer relationships | | 15,058 | | 15,071 |
| | | 32,678 | | 32,706 |
| Less: accumulated amortization | | (28,594) | | (26,983) |
| | $ | 4,084 | $ | 5,723 |

Aggregate intangible asset amortization expense amounted to $825 and $877 for the three months ended March 31, 2019 and 2018, respectively.

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

| **Year ending December 31,** | | |
|---|---|---|
| 2019 (nine months) | $ | 2,451 |
| 2020 | | 1,633 |
| Total | $ | 4,084 |

*Goodwill*

The difference in the carrying amount of goodwill at March 31, 2019 and September 30, 2018 (amounting to $39), 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:

| | | March 31, 2019 | | September 30, 2018 |
|---|---|---|---|---|
| Pension surplus | $ | 4,611 | $ | 5,257 |
| Long term receivables | | 1,934 | | 2,209 |
| Long term prepaid expenses and other assets | | 3,619 | | 4,648 |
| | $ | 10,164 | $ | 12,114 |

(in thousands, except share and per share data)

**9. Accrued Expenses**

Accrued expenses consist of the following:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Direct costs of sales | $ 2,908 | $ 4,450 |
| Payroll and related costs | 3,543 | 3,086 |
| Accrued corporate cost expenses | 1,328 | 3,167 |
| Asset retirement obligations | 990 | 571 |
| Contract termination costs | 212 | — |
| Interest payable - cash | 165 | 102 |
| Other creditors | 4,240 | 2,978 |
| | $ 13,386 | $ 14,354 |

**10. Contract Liabilities and Other Disclosures**

The following table summarizes the changes in contract liabilities:

| | Deferred Income |
|---|---|
| Balance at October 1, 2018 | $ (33,140) |
| Revenue recognized | 6,066 |
| Revenue deferred | (3,633) |
| Foreign currency translation adjustments | 845 |
| Balance at March 31, 2019 | $ (29,862) |

| | Deferred Income |
|---|---|
| Balance at October 1, 2017 | $ (27,353) |
| Revenue recognized | 10,597 |
| Revenue deferred | (16,921) |
| Foreign currency translation adjustments | 537 |
| Balance at September 30, 2018 | $ (33,140) |

Revenue recognized that was included in the deferred income balance at the beginning of the period amounted to $5,002 and $7,680 for the six months ended March 31, 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 |
|---|---|---|---|
| At October 1, 2018 | $ 17,791 | 10,771 | (3,719) |
| At March 31, 2019 | 16,741 | 10,345 | (2,939) |

| | Accounts Receivable | Unbilled Accounts Receivable | Customer Prepayments and Deposits |
|---|---|---|---|
| At October 1, 2017 | $ 25,527 | 9,542 | (4,346) |
| At September 30, 2018 | 17,791 | 10,771 | (3,719) |

(in thousands, except share and per share data)

## 11. Other Liabilities

Other liabilities consist of the following:

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Customer prepayments and deposits | $ 2,939 | $ 3,719 |
| Fair value of hedging instrument | — | 132 |
| **Total other liabilities, current** | 2,939 | 3,851 |
| Other payables, net of current portion | — | 511 |
| Asset retirement obligations | 253 | 323 |
| Contract termination costs | 78 | — |
| Senior debt exit premium | 4,200 | 4,200 |
| **Total other liabilities, long-term** | 4,531 | 5,034 |
| | $ 7,470 | $ 8,885 |

## 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, we 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.

***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, March 31, 2019 |
|---|---|---|---|
| Senior bank debt | $ 140,000 | (8,096) | 131,904 |
| Capital leases and hire purchase contract | 275 | — | 275 |
| **Total long-term debt outstanding** | 140,275 | (8,096) | 132,179 |
| Less: current portion of long-term debt | (274) | — | (274) |
| **Long-term debt, excluding current portion** | $ 140,001 | (8,096) | 131,905 |

| | Principal | Unamortized deferred financing charge | Book value, September 30, 2018 |
|---|---|---|---|
| Senior bank debt | $ 140,000 | $ (8,775) | $ 131,225 |
| Capital leases and hire purchase contract | 543 | — | 543 |
| **Total long-term debt outstanding** | 140,543 | (8,775) | $ 131,768 |
| Less: current portion of long-term debt | (474) | — | (474) |
| **Long-term debt, excluding current portion** | $ 140,069 | $ (8,775) | $ 131,294 |

(in thousands, except share and per share data)

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 March 31, 2019 matures as follows:

| Fiscal period: | Senior bank debt | Capital leases and hire purchase contract | Total |
|---|---|---|---|
| 2019 | $ — | $ 246 | $ 246 |
| 2020 | — | 29 | 29 |
| 2021 | — | — | — |
| 2022 | — | — | — |
| 2023 | 140,000 | — | 140,000 |
| Total | $ 140,000 | $ 275 | 140,275 |

**13. Derivatives and Hedging Activities**

In connection with the 2018 refinancing (see Note 12) we 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, $1.6 million will be reclassified as a reduction to interest expense.

(in thousands, except share and per share data)

As of March 31, 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 |
|---|---|---|---|
| Cross currency interest rate swaps | 1 | GBP 36,583 | USD 46,667 |

**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 March 31, 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 |
|---|---|---|---|
| Cross currency interest rate swaps | 1 | EUR 81,918 | USD 93,333 |

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 March 31, 2019.

| | Balance Sheet Classification | Asset Derivatives Fair Value | Balance Sheet Classification | Liability Derivatives Fair Value |
|---|---|---|---|---|
| Derivatives designated as hedging instruments: | | | | |
| Interest Rate and Foreign Exchange Products | Fair Value of Hedging Instruments | $ 649 | Derivative Liability | $ (3,173) |
| Total derivatives designated as hedging instruments | | $ 649 | | $ (3,173) |
| Derivatives not designated as hedging instruments: | | | | |
| Interest Rate and Foreign Exchange Products | Fair Value of Hedging Instruments | $ 51 | Derivative Liability | $ (2,415) |
| Total derivatives not designated as hedging instruments | | $ 51 | | $ (2,415) |

**(in thousands, except share and per share data)**

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 |
|---|---|---|---|---|
| Derivatives designated as hedging instruments: | | | | |
| Interest Rate and Foreign Exchange Products | Fair Value of Hedging Instruments | $ 747 | Derivative Liability | $ (3,442) |
| Total derivatives designated as hedging instruments | | $ 747 | | $ (3,442) |
| Derivatives not designated as hedging instruments: | | | | |
| Interest Rate and Foreign Exchange Products | Fair Value of Hedging Instruments | $ — | Derivative Liability | $ (4,450) |
| Total derivatives not designated as hedging instruments | | $ — | | $ (4,450) |

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income as of March 31, 2019.

| | Amount of Gain Recognized in Other Comprehensive Income on Derivative | | Location of Gain Reclassified from Accumulated Other Comprehensive Income into Income |
|---|---|---|---|
| Interest Rate and Foreign Exchange Products | $ (2,123) | Interest Expense | $ 454 |
| | | Foreign Currency Remeasurement | (1,927) |
| Total | $ (2,123) | | $ (1,473) |

There were no effects of fair value and cash flow hedge accounting on accumulated other comprehensive income as of March 31, 2018.

The table below presents the effect of the Company’s derivative financial instruments on the consolidated income statements as of March 31, 2019.

| | Interest Expense | Foreign Currency Remeasurement |
|---|---|---|
| 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 | $ 4,498 | (1,164) |
| Gain/(loss) on cash flow hedging relationships in Subtopic 815-20 | $ 454 | (1,927) |

There were no effects of the Company’s derivative financial instruments on the consolidated income statements as of March 31, 2018.

(in thousands, except share and per share data)

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 March 31, 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 |
|---|---|---|
| Interest Rate and Foreign Exchange Products | Change in fair value of derivative liability | $ 1,215 |

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 March 31, 2018.

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of March 31, 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**

March 31 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 |
| Fair value of hedging instrument | $ 700 | $ — | $ 700 | $ — | $ — | $ — |

**Offsetting of Derivative Liabilities**

March 31, 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 |
| Fair value of hedging instrument | $ 5,588 | $ — | $ 5,588 | $ — | $ — | $ — |

**Offsetting of Derivative Assets**

September 30, 2018

| | 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 | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Received | Net Amount |
| Fair value of hedging instrument | $ 747 | $ — | $ 747 | $ — | $ — | $ — |

**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 |
| Fair value of hedging instrument | $ 7,892 | $ — | $ 7,892 | $ — | $ — | $ — |

**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.

(in thousands, except share and per share data)

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 March 31, 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 ($4,888) and ($7,145), respectively. As of March 31, 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 March 31, 2019, it could have been required to settle its obligations under the ISDA Agreement at its termination value of $7,109.

**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 | March 31, 2019 | September 30, 2018 |
|---|---|---|---|
| Earnout liability (see Note 15) | 3 | $ — | $ 8,021 |
| Derivative liability (see Notes 13 and 16) | 2 | $ 6,145 | $ 7,764 |
| Long term receivable (included in other assets) | 2 | $ 1,934 | $ 2,209 |

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.

(in thousands, except share and per share data)

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 March 31, 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 $8,616 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):

| | | |
|---|---|---|
| Balance – September 30, 2018 | $ | 8,021 |
| Change in fair value of earnout liability | | 595 |
| Settlement of earnout liability | | (8,616) |
| Balance – March 31, 2019 | $ | — |

All movements in the balance during the three months ended March 31, 2019 were due to movements in the price of the Company's common stock

**16. Derivative Liability**

The Company's Board of Directors adopted the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (the "2018 Plan") in September 2018 subject to the approval by the Company's stockholders, which is being sought at the 2019 annual meeting of stockholders. 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 contingent on approval by the Company's stockholders. These initial awards are scheduled to vest in one-third installments on each of December 31, 2019, 2020 and 2021; however, in the event the Company's stockholders do not approve the 2018 Plan by December 31, 2019, the first scheduled vesting date, the awards will be cancelled and award recipients would be eligible to receive a cash payment (provided they remain service providers to the Company) with respect to the value of one-third of the RSUs (to be determined based on the volume weighted average price of the Company's common stock over the 30 trading days prior to the date of cancellation). This contingent cash payment obligation, which is not within the Company's control, in conjunction with the cancellation of RSUs results in the awards being classified as a derivative liability until stockholder approval is obtained with fair value changes being recorded in the consolidated statements of operations and comprehensive loss. The fair value of the liability is calculated based on the value of the underlying common stock which was $6.10 per share on the grant date. Until stockholder approval is obtained, these awards are not considered issued and outstanding equity grants.

The Compensation Committee approved further awards under the 2018 Plan in January 2019 covering an aggregate of 572,345 RSUs subject to the approval of the Company's stockholders, 50% of which is performance-based and requires a service period through December 31, 2021 subject to certain exceptions. The Committee did not approve a contingent cash payment obligation in connection with the RSUs awarded in 2019. As a result, such RSUs would be cancelled in full and the award recipients would not receive a cash payment in consideration thereof in the event the Company's stockholders do not approve the 2018 Plan by December 31, 2019.

(in thousands, except share and per share data)

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. As of March 31, 2019, there were 2,489,197 shares subject to outstanding awards, including 1,092,633 shares subject to market-price vesting conditions, and 1,016,425 shares available for new awards.

A summary of the Company's RSUs activity during the six month period ended March 31, 2019 is as follows:

| | Number of Shares |
|---|---|
| Unvested Outstanding at September 30, 2018 | 1,729,491 |
| Granted | 62,676 |
| Forfeited | (13,202) |
| Vested | (23,242) |
| Unvested Outstanding at March 31, 2019 | 1,755,723 |

In addition, during the six months ended March 31, 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 $2,080 and $1,251 for the three months ended March 31, 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 Loss |
|---|---|---|---|---|
| Balance at September 30, 2018 | $ (78,941) | $ 47 | $ 20,314 | $ (58,580) |
| Change during the period | 490 | 411 | 1,932 | 2,833 |
| Balance at March 31, 2019 | $ (78,451) | 458 | 22,246 | (55,747) |

**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:

(in thousands, except share and per share data)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Earnout Shares | — | 2,500,000 |
| RSUs | 1,865,081 | 1,665,765 |
| Unvested Restricted Stock | 624,116 | 624,116 |
| Stock Warrants | 9,539,565 | 9,539,565 |
| | 12,028,762 | 14,329,446 |

**20. Other Finance Income (Costs)**

Other finance income (costs) consisted of the following for the three months ended March 31, 2019 and 2018:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Pension interest cost | $ (693) | $ (757) |
| Expected return on pension plan assets | 929 | 956 |
| Foreign currency translation on senior bank debt | 2,855 | — |
| Foreign currency remeasurement on hedging instrument | (1,927) | — |
| | $ 1,164 | $ 199 |

**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 March 31, 2019 and 2018 was 1.8% and (20.0)%, respectively, resulting in a $93 income tax benefit and ($83) income tax expense, respectively. The income tax benefit for the three months ended March 31, 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 months ended March 31, 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 $57,177 as of March 31, 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.

**(in thousands, except share and per share data)**

**22. Related Parties**

We occupy office space leased by a company affiliated with our Executive Chairman and incur amounts monthly in maintenance expenses primarily for the lease of the office.

| | | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|---|
| Hydra Management LLC | Selling, general and administrative expenses | $ (18) | $ (14) |

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 to HGV Fund amounted to $4,129 for the three months ended March 31, 2019.

**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.

**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 three months ended March 31, 2019 amounted to $247.

For the three months ended March 31, 2019 and 2018, the components of total periodic benefit costs were as follows:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| **Components of net periodic benefit:** | | |
| Interest cost | $ 693 | $ 757 |
| Expected return on plan assets | (929) | (956) |
| **Net periodic benefit** | $ (236) | $ (199) |

(in thousands, except share and per share data)

**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 March 31, 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 months ended March 31, 2018.

***Segment Information***

**Three Months Ended March 31, 2019**

| | Server Based Gaming | Virtual Sports | Corporate Functions | Total |
|---|---|---|---|---|
| Revenue: | | | | |
| Service | $ 20,813 | $ 9,980 | $ — | $ 30,793 |
| Hardware | 2,878 | — | — | 2,878 |
| **Total revenue** | 23,691 | 9,980 | — | 33,671 |
| Cost of sales, excluding depreciation and amortization: | | | | |
| Cost of service | (4,386) | (975) | — | (5,361) |
| Cost of hardware | (1,648) | — | — | (1,648) |
| Selling, general and administrative expenses | (6,560) | (2,247) | (5,933) | (14,740) |
| Stock-based compensation expense | (402) | (332) | (1,346) | (2,080) |
| Acquisition related transaction expenses | — | — | (844) | (844) |
| Depreciation and amortization | (7,680) | (1,508) | (512) | (9,700) |
| **Segment operating income (loss)** | 3,015 | 4,918 | (8,635) | (702) |
| | | | | |
| **Net operating loss** | | | | $ (702) |
| | | | | |
| **Total assets at March 31, 2019** | $ 90,267 | $ 68,008 | $ 29,379 | $ 187,654 |
| | | | | |
| **Total goodwill at March 31, 2019** | $ — | $ 45,779 | $ — | $ 45,779 |
| **Total capital expenditures for the three months ended March 31, 2019** | $ 2,943 | $ 1,345 | $ 223 | $ 4,511 |

(in thousands, except share and per share data)

**Three Months Ended March 31, 2018**

| | Server Based Gaming | Virtual Sports | Corporate Functions | Total |
|---|---|---|---|---|
| Revenue: | | | | |
| Service | $ 23,573 | $ 9,660 | $ — | $ 33,233 |
| Hardware | 4,220 | — | — | 4,220 |
| **Total revenue** | 27,793 | 9,660 | — | 37,453 |
| Cost of sales, excluding depreciation and amortization: | | | | |
| Cost of service | (4,698) | (1,319) | — | (6,017) |
| Cost of hardware | (4,067) | — | — | (4,067) |
| Selling, general and administrative expenses | (8,257) | (2,902) | (4,463) | (15,622) |
| Stock-based compensation expense | (262) | (251) | (738) | (1,251) |
| Acquisition related transaction expenses | — | — | (228) | (228) |
| Depreciation and amortization | (8,729) | (2,048) | (343) | (11,120) |
| **Segment operating income (loss)** | 1,780 | 3,140 | (5,772) | (852) |
| | | | | |
| **Net operating loss** | | | | (852) |
| | | | | |
| **Total assets at September 30, 2018** | $ 103,378 | $ 69,545 | $ 34,989 | $ 207,912 |
| | | | | |
| **Total goodwill at September 30, 2018** | $ — | $ 45,818 | $ — | $ 45,818 |
| **Total capital expenditures for the three months ended March 31, 2018** | $ 8,820 | $ 1,450 | $ 89 | $ 10,359 |

***Geographic Information***

Geographic information for revenue is set forth below:

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Total revenue | | |
| UK | $ 22,218 | $ 24,644 |
| Greece | 4,801 | 5,443 |
| Italy | 4,222 | 4,705 |
| Rest of world | 2,430 | 2,661 |
| **Total** | $ 33,671 | $ 37,453 |

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

| | March 31, 2019 | September 30, 2018 |
|---|---|---|
| Total non-current assets excluding goodwill | | |
| UK | $ 51,165 | $ 60,037 |
| Greece | 30,370 | 36,175 |
| Italy | 2,739 | 3,368 |
| Rest of world | 4,748 | 3,962 |
| **Total** | $ 89,022 | $ 103,542 |

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

**26. Customer Concentration**

During the three months ended March 31, 2019, three customers represented at least 10% of revenues, accounting for 23%, 14% and 11% of the Company’s revenues. During the three months ended March 31, 2018, three customers represented at least 10% of revenues, accounting for 23%, 19% and 15% of the Company’s revenues. All these customers were served by both the Server Based Gaming and Virtual Sports segments.

At March 31, 2019, two customers represented at least 10% of accounts receivable, accounting for 14% and 11% 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**

On April 24, 2019, Inspired Software Development (India) LLP was incorporated under the Limited Liability Partnership Rules, 2009 in India. The LLP is majority owned by a subsidiary of the Company. The LLP is operating from premises located in Kochi, India and employment of personnel commenced on May 6, 2019.

**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 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 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 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", "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;
- the determination by the UK Government, to substantially reduce maximum permitted bets on B2 gaming machines in the UK, effective as of 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; 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 fiscal year, so that it begins on January 1 and ends on December 31 of each year, starting on January 1, 2019. Accordingly, this Form 10-Q, covers the first quarter of our financial year, being the period from January 1, 2019 to March 31, 2019.

***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 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 revenues 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, leaving fewer costs within "Corporate Functions", which management believes provides a more informed allocation. As such, we have restated the reporting segmental splits for March 31, 2018 expenses in line with the new allocations, to give a clear comparison with the current period. Commentary within this section focuses on changes from the restated number.

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 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 server.

***Revenues***

We generate revenues in two principal ways: on a participation basis and through product sales and software license fees. Participation revenues 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 revenues are derived from, and more than half of our non-current assets are attributed to, our UK operations, with the remainder of our revenues derived from, and non-current assets attributed to, Italy, Greece and the rest of the world.

For the three months ended March 31, 2019, we earned approximately 66.0% of our revenue in the UK, 14.3% in Greece, 12.5% in Italy and the remaining 7.2% across the rest of the world. During the three months ended March 31, 2018, we earned approximately 65.8%, 14.6%, 12.5% and 7.1% 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 United Kingdom, 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 March 31, 2019, we derived approximately 34.0% of our revenue from sales to customers outside of the UK compared to 34.2% during the three months ended March 31, 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 March 31, 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 three-month period ended March 31, 2019, compared to the same period in 2018, including KPI analysis.

The three-month financial periods presented consist of a 90-day period for each of 2019 and 2018. Each of the foregoing periods is herein referred to as a "three-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 March 31, 2019 and 2018, the average GBP: USD rate was 1.30 and 1.40, 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 March 31, 2019 compared to Three Months ended March 31, 2018***

| *(In thousands)* | **For the Three-Month Period ended**<br>**Unaudited Mar 31, 2019** | **Unaudited Mar 31, 2018** | **Variance 2019 vs 2018** | | **Functional Currency at Constant rate** | **Variance Functional Currency** | **Currency Movement** |
|---|---|---|---|---|---|---|---|
| **Revenue:** | | | | | | | |
| Service | $ 30,793 | $ 33,233 | ($ 2,440) | (7.3%) | ($ 153) | (0.5%) | ($ 2,287) |
| Hardware | 2,878 | 4,220 | (1,342) | (31.8%) | (1,159) | (27.4%) | (184) |
| **Total revenue** | **33,671** | **37,453** | **(3,782)** | **(10.1%)** | **(1,312)** | **(3.5%)** | **(2,470)** |
| Cost of sales, excluding depreciation and amortization: | | | | | | | |
| Cost of service | (5,361) | (6,017) | 657 | (10.9%) | 253 | (4.2%) | 404 |
| Cost of hardware | (1,648) | (4,067) | 2,419 | (59.5%) | 2,313 | (56.8%) | 106 |
| Selling, general and administrative expenses | (14,740) | (15,622) | 881 | (5.6%) | (220) | 1.4% | 1,101 |
| Stock-based compensation | (2,080) | (1,251) | (829) | 66.3% | (979) | 78.1% | 150 |
| Acquisition related transaction expenses | (844) | (228) | (616) | 270.1% | (675) | 298.6% | 59 |
| Depreciation and amortization | (9,700) | (11,120) | 1,420 | (12.8%) | 699 | (6.3%) | 721 |
| **Net operating Income (Loss)** | **(702)** | **(852)** | **150** | **(17.6%)** | **79** | **(9.4%)** | **71** |
| **Other income (expense)** | | | | | | | |
| Interest income | 33 | 93 | (59) | (63.9%) | (56) | (61.0%) | (3) |
| Interest expense | (4,498) | (5,162) | 663 | (12.9%) | 316 | (6.1%) | 347 |
| Change in fair value of earnout liability | (2,263) | 3,754 | (6,017) | (160.3%) | (6,185) | (166.2%) | 169 |
| Change in fair value of derivative liability | 1,220 | 1,553 | (333) | (21.5%) | (256) | (16.5%) | (77) |
| Other finance income (costs) | 1,164 | 199 | 965 | 484.7% | 1,078 | 541.9% | (113) |
| **Total other income (expense), net** | **(4,344)** | **437** | **(4,781)** | **(1094.0%)** | **(5,103)** | **(1234.6%)** | **322** |
| **Net loss from continuing operations before income taxes** | (5,046) | (415) | (4,631) | 1116.5% | (5,024) | 1175.9% | 393 |
| Income tax expense | 93 | (83) | 177 | (211.7%) | 183 | (219.1%) | (6) |
| **Net loss** | **($ 4,953)** | **($ 498)** | **($ 4,455)** | **893.9%** | **($ 4,842)** | **948.1%** | **$ 387** |
| *Exchange Rate - $to £* | *1.30* | *1.40* | | | | | |

***Revenue***

Total revenue for the period ended March 31, 2019 decreased by $3.8 million, or 10.1%, to $33.7 million. Adverse currency movements accounted for $2.5 million of the decrease. On a functional currency at constant rate basis, revenue decreased by $1.3 million, or 3.5% on a functional currency basis, with service revenue decreasing by $0.2 million and hardware revenue decreasing by $1.2 million.

SBG revenue, which is included in total revenue, above, decreased by $2.4 million on a functional currency at constant rate basis, or 8.5% on a functional currency basis, comprised of a reduction in service revenue of $1.2 million and a $1.2 million reduction in hardware sales.

The decrease in SBG service revenue was due to a decrease in revenue in the UK LBO market of $0.5 million, driven by the end of a service contract worth $0.4 million in the quarter, a decrease in revenue in the Italian market of $0.3 million due to $0.2 million of lower sales of machine parts as well as a 1.5% increase in tax rate, and a decrease in revenue in UK Other (all SBG UK market revenue excluding UK LBO revenue) of $0.2 million due to lower ad hoc service work in the period. Greek market revenues were in line with last year, driven by the continued rollout of terminals which drove additional income, offset by a reduction in software license sales.

The decrease in hardware revenue was driven by lower hardware sales in the UK market of $3.1 million, due to lower Flex sales (the prior year sales were all at nil margin), partly offset by higher Self Service Betting Terminal (“SSBT”) sales in the UK market; this was offset by higher Electronic Table Game (“ETG”) sales of the Sabre Hydra terminal of $1.9 million.

Virtual Sports revenue increased on a functional currency at constant rate basis by $1.1 million, or 11.0%, due to growth in the UK of $0.4 million and growth in new customer launches in the rest of the world of $0.4 million, as well as one-off income from historic recurring revenues previously unreported to us of $0.8 million across Virtual and Interactive customers. Growth was negatively affected by a decline in revenue in Greece of $0.2 million and a decline in revenue from long-term Virtual Sports licenses that have now expired of $0.3 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 $3.1 million, or 30.5%, on a reported basis, to $7.0 million. Of this decrease, $0.5 million arose from favorable currency movements. On a functional currency at constant rate basis, cost of sales decreased by $2.6 million, or 25.4% on a functional currency basis.

This is due to decrease in cost of hardware of $2.3 million, or 56.8% on a functional currency basis, due to lower hardware sales in the UK market, and a decrease in cost of service of $0.3 million, or 4.2% on a functional currency basis, due to a decrease in Virtual Sports service costs. This was driven by a decrease in Greece service costs of $0.1 million driven by the reduction in revenue. SBG cost of service was consistent with prior year.

***Selling, general and administrative expenses***

SG&A expenses decreased by $0.9 million, or 5.6%, on a reported basis, to $14.7 million, comprised of an increase of $0.2 million on a functional currency at constant rate basis, offset by $1.1 million from favorable currency movements. This was driven by staff related cost savings of $1.5 million and legal cost savings of $0.2 million. This was offset by an increase in the costs of group restructure of $1.1 million (removed from Adjusted EBITDA) and a decrease in net labor capitalization and manufacturing recoveries of $0.7 million due to mix of projects and lower factory throughput as a result of fewer machines being built in the quarter.

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.

***Stock-based compensation***

During the three months ended March 31, 2019, the Company recorded an expense of $2.1 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 Plan and $0.2 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, however the change in stock price from $4.80 at December 31, 2018 to $6.67 at March 31, 2019 resulting in an increased charge of less than $0.1 million in this scheme. During the three months ended March 31, 2018, the charge for stock-based compensation was $1.3 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 $0.6 million in the period to $0.8 million. The entirety of the 2019 and 2018 period expenses were related to work with respect to potential acquisitions.

***Depreciation and amortization***

Depreciation and amortization decreased by $1.4 million, or 12.8%, on a reported basis, to $9.7 million. This included the impact of favorable currency movements of $0.7 million.

On a functional currency at constant rate basis, depreciation and amortization decreased by $0.7 million, or 6.3% on a functional currency basis. This decrease was driven by 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, partly offset by higher amortization on SBG of $0.1 million. Machine depreciation decreased by $0.6 million driven by fully depreciated machines in the UK LBO market driving $1.2 million lower depreciation, which was partly offset by additional depreciation in Greece $0.7 million due to the continued roll out of machines.

***Net operating loss***

During the period on a reported basis, net operating loss improved from a loss of $0.9 million to a loss of $0.7 million. This improvement was partly driven by a $0.1 million favorable currency movement. On a functional currency at constant rate basis, net operating loss improved by $0.1 million, mainly due to savings in cost of sales and depreciation and amortization, partly offset by a reduction in revenue, and increases in stock-based compensation, acquisition related transaction and SG&A expenses.

***Interest expense***

Interest expense decreased by $0.6 million in the period, to $4.5 million, on a reported basis. Of this variance $0.3 million was due to a favorable currency movement. On a functional currency at a constant rate basis, interest expense was $0.3 million (6.1%) lower than the prior year. Savings of $2.0 million of PIK interest (no longer incurred following the debt refinancing in August 2018) was offset by an increase of $1.1 million 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***

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 three months ended March 31, 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 $3.8 million gain.

***Change in fair value of derivative liability***

Change in fair value of derivative liability decreased by $0.3 million, to a $1.2 million gain for the three months ended March 31, 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 three months ended March 31, 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 period ended March 31, 2019 were a $1.2 million gain, $1.0 million higher than the previous year. Changes in exchange rates resulted in a gain of $2.9 million in retranslating the debt balance. This was offset by a $1.9 million charge from the GBP: USD cross currency swap entered into to mitigate this impact, accounted for under hedge accounting, and a $0.2 million pension interest gain. The previous year had a $0.2 million pension interest gain.

***Income tax expense***

Our effective tax rate for the period ending March 31, 2019 was (1.8)%, and our effective tax rate for the period ending March 31, 2018 was 20.1%.

***Net loss***

On a reported basis, net loss increased by $4.5 million from a loss of $0.5 million to a loss of $5.0 million in the period ended March 31, 2019. This variance was partly offset by a favorable currency movement of $0.4 million. On a functional currency at constant rate basis net loss increased by $4.8 million, mainly due to the $6.0 million change in fair value of earnout liability. This was offset by the improvement in net operating loss and the increase in other finance income.

***Three Months ended March 31, 2019 compared to Three Months ended March 31, 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***

| | For the Three-Month Period ended | | Variance | |
|---|---|---|---|---|
| **SBG** | **Unaudited Mar 31, 2019** | **Unaudited Mar 31, 2018** | **2019 vs 2018** | **%** |
| End of period installed base (# of terminals) | 35,286 | 31,616 | 3,670 | 11.6% |
| Average installed base (# of terminals) | 35,022 | 30,723 | 4,299 | 14.0% |
| Customer Gross Win per unit per day[1] | £ 104.77 | £ 114.53 | (£ 9.76) | (8.5%) |
| Customer Net Win per unit per day [1] | £ 73.11 | £ 81.66 | (£ 8.55) | (10.5%) |
| Inspired Blended Participation Rate | 6.1% | 6.1% | (0.0%) | |

[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 KPIs 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.

Revenues are 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 March 31, 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 8,360 terminals in Greece is now over 7,300 as of March 31, 2019. Despite increased density, the performance of our Greek terminals continues to be strong against our competitors.

In Italy, customer Gross Win per unit per day (in EUR) increased by €4.10 or 4.2% across all customers compared to the same period last year due to continued improvement in games and account management. However, due to an increase in tax on revenue of 1.5% from 6.8% in 2018 to 8.3% in 2019, Net Win per unit per day (in EUR) has reduced by €8.91 or 22.0%.

During the period, an additional 125 SSBTs were sold and deployed in the UK market. In addition to hardware sale margin, these terminals also generate a recurring service fee.

In the UK Casino market, we sold 50 “Flex” B3 terminals to a major customer. These terminals were installed towards the end of the quarter ended March 31, 2019 and in future periods will result in a recurring software rental fee and content revenue share to the Company.

In the UK Electronic Table Games (ETG) market, we sold 109 “Sabre Hydra” terminals to a major Casino customer.

Overall, the size of our Installed Base at the end of the period increased 11.6%, to 35,286, 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 8.5% across the entire estate, driven by the impact of our SBG installations in Greece, as our Greek machines return a lower daily Customer Gross Win compared to our UK machines. The overall Net Win decrease is driven by the increase in Italian tax. Our blended participation rate remained constant at 6.1%.

***SBG segment, key events that affected results for the Three Months ended March 31, 2018***

Our SBG rollout into the Greek market continued, with approximately 3,900 terminals installed as of March 31, 2018. During the period a further 1,035 terminals were contracted. The performance of our Greek terminals continues to be strong compared to other suppliers during the period.

During the period, we supplied over 500 of our "Flex 4K" products to our second largest UK LBO customer. We also deployed a further 600 of our "Eclipse" terminals with the same UK customer, resulting in a total machine growth of 23% with this customer.

Another of our major UK LBO customers was contracted for a further three years during the period. The contract extension includes the deployment of an additional 112 "Eclipse" terminals during April and May 2018, further increasing our UK LBO estate.

Overall, the size of our Average Installed Base increased 13.7%, to 30,723, due to our continued terminal rollout in Greece and contract awards in the UK LBO estate. Customer Gross Win per unit per day (in our functional currency, GBP) decreased by 3.7%, driven by the impact of our SBG installations in Greece, as our Greek machines return a lower daily Customer Gross Win compared to our UK machines. Our blended participation rate increased 0.2% to 6.1%.

***SBG Segment, Three Months ended March 31, 2019 compared to Three Months ended March 31, 2018***

| **Server Based Gaming** | **For the Three-Month Period ended** | | **Variance** | | | **Variance** | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | **Unaudited Mar 31, 2019** | **Unaudited Mar 31, 2018** | **2019 vs 2018** | | **Functional Currency at Constant rate** | **Functional Currency** | **Currency Movement** |
| **Revenue:** | | | | | | | |
| Service | $ 20,813 | $ 23,573 | ($ 2,760) | (11.7%) | ($ 1,216) | (5.2%) | ($ 1,544) |
| Hardware | 2,878 | 4,220 | (1,342) | (31.8%) | (1,158) | (27.4%) | (184) |
| **Total revenue** | **23,691** | **27,793** | **(4,102)** | **(14.8%)** | **(2,374)** | **(8.5%)** | **(1,728)** |
| | | | | | | | |
| **Cost of sales, excluding depreciation and amortization:** | | | | | | | |
| Cost of service | (4,386) | (4,698) | 312 | (6.6%) | (15) | 0.3% | 327 |
| Cost of hardware | (1,648) | (4,067) | 2,418 | (59.5%) | 2,312 | (56.8%) | 106 |
| **Total cost of sales** | **(6,034)** | **(8,765)** | **2,731** | **(31.2%)** | **2,297** | **(26.2%)** | **433** |
| Selling, general and administrative expenses | (6,560) | (8,257) | 1,697 | (20.6%) | 1,207 | (14.6%) | 490 |
| Stock-based compensation | (402) | (262) | (140) | 53.4% | (169) | 64.7% | 29 |
| Depreciation and amortization | (7,680) | (8,729) | 1,049 | (12.0%) | 478 | (5.5%) | 571 |
| **Net operating profit** | **$ 3,015** | **$ 1,780** | **$ 1,235** | **69.4%** | **$ 1,439** | **80.5%** | **$ (204)** |
| *Exchange Rate - $ to £* | *1.30* | *1.40* | | | | | |

***SBG segment revenue.*** In the period revenue decreased by $4.1 million, to $23.7 million, on a reported basis. This decrease was due in part to adverse currency movements of $1.7 million. On a functional currency at constant rate basis, SBG revenue decreased by $2.4 million, or 8.5% on a functional currency basis.

Service revenue decreased by $2.8 million on a reported basis. This was due in part to adverse currency movements of $1.5 million. On a functional currency at constant rate basis, SBG service revenue decreased by $1.2 million, or 5.2% on a functional currency basis, to $20.8 million. This was due to a decrease in revenue in the UK LBO market of $0.5 million driven by the end of a service contract, a decrease in revenue in the Italian market of $0.3 million due to $0.2 million from lower sales of machine parts and the 1.5% tax increase, a decrease in revenue in UK Other of $0.2 million due to lower ad hoc service work in the period, and a reduction in the Greek market of $0.1 million driven by a reduction in software license sales, offset by the continued terminal rollout driving additional income.

Although SBG service revenue decreased in the period, SBG recurring revenue as a percentage of total SBG revenue increase by 7.5% to 78.2%.

The continued terminal rollout into the Greek market drove additional participation revenue of $0.6 million and other recurring revenue of $0.5 million. This was partly offset by a $1.3 million reduction in software license sales compared to last year.

UK LBO Customer Gross Win per unit per day remained broadly in line with last year on a reported basis.

Hardware revenue decreased by $1.3 million to $2.9 million, on a reported basis. On a functional currency at constant rate basis, SBG hardware revenue decreased by $1.2 million, principally due to lower Flex sales (the sales last year were all at nil margin) partly offset by higher SSBT sales in the UK market driving a variance of $3.1 million. This was offset by higher ETG sales of the Sabre Hydra terminal of $1.9 million.

***SBG segment operating income.*** Cost of sales (excluding depreciation and amortization) decreased by $2.7 million to $6.0 million on a reported basis. This variance was impacted by favorable currency movements of $0.4 million. On a functional currency at constant rate basis, cost of sales decreased by $2.3 million. This was principally due to a decrease in hardware costs of $2.3 million driven by lower hardware sales in in the UK market and service costs remaining in line with the prior year. Although overall service costs remained in line with the prior year, Greek SBG service costs increased by $0.3 million driven by the increase in terminals as the Greece rollout continues and content costs in the UK market increased by $0.1 million. These increases were entirely offset by a decrease in UK consumables of $0.2 million, a decrease in cost of service in Italy of $0.1 million and a $0.1 million decrease in Greece costs from lower software license sales.

SG&A expenses decreased by $1.7 million to $6.6 million, on a reported basis. Of this variance, $0.5 million arose from favorable currency movements. This resulted in a functional currency at constant rate decrease of $1.2 million driven by staff related cost savings of $1.7 million, lower computer costs of $0.3 million, driven by lower headcount and lower machine distribution costs of $0.3 million, offset by $0.6 million lower manufacturing recoveries due to lower factory throughput and $0.5 million from higher restructure costs.

These restructure costs 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 $1.0 million to $7.7 million on a reported basis. Of this amount, $0.6 million arose due to favorable currency movements. On a functional currency at constant rate basis, the decrease was $0.5 million, driven by $0.6 million from lower machine and machine related depreciation offset by $0.1 million higher amortization. The lower machine and machine related depreciation was driven by lower depreciation in the UK ($1.2 million) and Italy ($0.1 million) due to machines being fully depreciated, partly offset by the additional machine and machine related depreciation in Greece of $0.7 million, from the continued terminal rollout in the Greek market.

Operating profit increased by $1.2 million to $3.0 million, on a reported basis. On a functional currency at constant rate basis, SBG operating profit increased by $1.4 million. This was primarily due to the decrease in cost of sales, SG&A and depreciation and amortization, partly offset by lower revenue, higher stock-based compensation and $0.2 million from adverse 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.

| | For the Three-Month Period ended | | Variance | |
|---|---|---|---|---|
| | Unaudited Mar 31, 2019 | Unaudited Mar 31, 2018 | 2019 vs 2018 | % |
| **SBG Recurring Revenue** | | | | |
| Total SBG Revenue | £ 18,177 | £ 19,875 | (£ 1,698) | (8.5%) |
| | | | | |
| SBG Participation Revenue (£'000) | £ 13,968 | £ 13,821 | £ 147 | 1.1% |
| SBG Other Fixed Fee Recurring Revenue (£'000) | £ 242 | £ 234 | £ 8 | 3.6% |
| Total SBG Recurring Revenue (£'000) | £ 14,211 | £ 14,055 | £ 156 | 1.1% |
| SBG Recurring Revenue as a Percentage of Total SBG Revenue | 78.2% | 70.7% | 7.5% | |

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** | **For the Three-Month Period ended** | | **Variance** | | | **Variance** | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | **Unaudited Mar 31, 2019** | **Unaudited Mar 31, 2018** | **2019 vs 2018** | | **Functional Currency at Constant rate** | **Functional Currency** | **Currency Movement** |
| **Service Revenue:** | | | | | | | |
| UK LBO | $ 13,259 | $ 14,766 | ($ 1,507) | (10.2%) | ($ 516) | (3.5%) | ($ 991) |
| UK Other | 1,325 | 1,663 | (338) | (20.3%) | (238) | (14.3%) | (100) |
| Italy | 2,009 | 2,436 | (427) | (17.5%) | (275) | (11.3%) | (153) |
| Greece | 3,987 | 4,406 | (420) | (9.5%) | (138) | (3.1%) | (282) |
| Rest of the World | 234 | 301 | (68) | (22.4%) | (50) | (16.6%) | (17) |
| | | | | | | | |
| **Total service revenue** | **$ 20,813** | **$ 23,573** | **($ 2,760)** | **(11.7%)** | **($ 1,216)** | **(5.2%)** | **($ 1,544)** |
| | | | | | | | |
| *Exchange Rate - $ to £* | *1.30* | *1.40* | | | | | |

***Virtual Sports Segment, Three Months ended March 31, 2019 compared to Three Months ended March 31, 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 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***

| | For the Three-Month Period ended Unaudited Mar 31, 2019 | Unaudited Mar 31, 2018 | Variance 2019 vs 2018 | % |
|---|---|---|---|---|
| **Virtuals** | | | | |
| No. of Live Customers at the end of the period | 101 | 94 | 7 | 7.4% |
| Average No. of Live Customers | 99 | 90 | 9 | 9.4% |
| Total Revenue (£'000) | £ 7,659 | £ 6,898 | £ 760 | 11.0% |
| Total Revenue £'000 - Retail | £ 4,122 | £ 4,265 | (£ 143) | (3.4%) |
| Total Revenue £'000 - Scheduled Online Virtuals | £ 2,904 | £ 2,043 | £ 861 | 42.1% |
| Total Revenue £'000 - Interactive | £ 632 | £ 590 | £ 43 | 7.2% |
| Average Revenue Per Customer per day (£) | £ 844 | £ 849 | (£ 5) | (0.6%) |

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.

"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.

| | For the Three-Month Period ended Unaudited Mar 31, 2019 | Unaudited Mar 31, 2018 | Variance 2019 vs 2018 | % |
|---|---|---|---|---|
| **Virtual Sports Recurring Revenue** | | | | |
| Total Virtual Sports Revenue (£'000) | £ 7,659 | £ 6,898 | £ 760 | 11.0% |
| | | | | |
| Recurring Revenue (£'000) - Retail and Scheduled Online Virtuals | £ 6,412 | £ 5,445 | £ 967 | 17.8% |
| Recurring Revenue (£'000) - Interactive | £ 632 | £ 590 | £ 43 | 7.2% |
| Total Virtual Sports Recurring Revenue (£'000) | £ 7,045 | £ 6,035 | £ 1,010 | 16.7% |
| Virtual Sports Recurring Revenue as a Percentage of Total Virtual Sports Revenue | 92.0% | 87.5% | 4.5% | |

In the table above:

"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.

***Virtual Sports segment, key events that affected results for the Three Months ended March 31, 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 launched Virtual Horses, Dogs and Football (Soccer) via our proprietary Virtuals Connect platform with Genting Online.

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.

In February, the Gaming International Awards were held at ICE 2019 and the Company was named Virtual Supplier of the year.

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 nine, from 90 to 99. Including the launch of two new Interactive customers, both of which were launched via the NYX platform, taking our Average Number of Live Interactive Customers for the period to 35.

Overall revenue per customer has decreased during the quarter compared to last year. This was due to the increase in customers during the quarter. There has however been a significant increase in revenue per customer against the previous quarter. Revenue per customer is expected to continue to increase throughout the rest of 2019.

***Virtual Sports segment, key events that affected results for the Three Months ended March 31, 2018***

As of March 31, 2018, OPAP offered our Virtual Sports product in over 3,500 retail venues following the launch in April 2017.

During the period, our Virtual Sports products continued to grow in Finland through the launch into Veikkaus, Finland's national lottery.

By the end of the period, our Interactive business was live with twenty-two customers, having launched sixteen new customers since March 31, 2017, including Bet Victor, Aspire Global, White Hat Gaming, Casino Land, Casino777 and Netbet.

***Virtual Sports segment, Three Months ended March 31, 2019 compared to Three Months ended March 31, 2018***

| **Virtual Sports** | **For the Three-Month Period ended** | | **Variance** | | **Variance** | | |
|---|---|---|---|---|---|---|---|
| *(In thousands)* | **Unaudited Mar 31, 2019** | **Unaudited Mar 31, 2018** | **2019 vs 2018** | | **Functional Currency at Constant rate** | **Functional Currency** | **Currency Movement** |
| **Service Revenue** | **$ 9,980** | **$ 9,660** | **$ 320** | **3.3%** | **$ 1,065** | **11.0%** | **($ 744)** |
| Cost of Service | (975) | (1,319) | 344 | (26.1%) | 269 | (20.4%) | 76 |
| Selling, general and administrative expenses | (2,247) | (2,902) | 655 | (22.6%) | 487 | (16.8%) | 168 |
| Stock-based compensation | (332) | (251) | (81) | 32.3% | (106) | 42.4% | 25 |
| Depreciation and amortization | (1,508) | (2,048) | 540 | (26.4%) | 427 | (20.9%) | 112 |
| **Net operating profit** | **$ 4,918** | **$ 3,140** | **$ 1,778** | **56.6%** | **$ 2,141** | **68.2%** | **($ 363)** |
| *Exchange Rate - $ to £* | *1.30* | *1.40* | | | | | |

***Virtual Sports segment revenue.*** In the period revenue increased by $0.3 million, or 3.3%, on a reported basis. This increase includes the impact of adverse currency movements of $0.7 million. On a functional currency at constant rate basis, Virtual Sports revenue increased by $1.1 million, or 11.0%.

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 $0.4 million and Italy of $0.1 million, with growth and new customer launches in the rest of the world driving $0.4 million of additional revenue, as well as one-off income from historic recurring revenue previously unreported to us of $0.8 million across Virtual and Interactive customers. Total revenue growth was negatively affected by a reduction in revenue in the Greek market of $0.2 million and from the reduction of long-term Virtual Sports contracts that have expired of $0.3 million.

***Virtual Sports segment operating income.*** Cost of service decreased by $0.3 million to $1.0 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 Greece cost of sales driven by the lower incomes and $0.1 million from a cost of sale write-off in the prior year.

SG&A expenses decreased by $0.7 million, on a reported basis. Of this decrease, $0.2 million arose from favorable currency movements. This resulted in a functional currency at constant rate decrease of $0.5 million largely driven by staff related cost savings of $0.4 million.

Depreciation and amortization decreased by $0.5 million to $1.5 million, on a reported basis. Of this decrease, $0.1 million arose from 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 $1.8 million on a reported basis to $4.9 million, which includes an impact of $0.4 million arising from adverse currency movements. On a functional currency at constant rate basis, this represented an increase of $2.1 million or 68.2% on a functional currency basis. This was primarily due to an increase in revenue, a decrease of cost of service and lower depreciation and amortization, partly offset by $0.1 million 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 thousands)* | For the Three-Month Period ended Unaudited Mar 31, 2019 | Unaudited Mar 31, 2018 |
|---|---|---|
| Net loss | ($ 4,953) | ($ 498) |
| **Items Relating to Legacy Activities:** | | |
| Pension charges | 198 | 139 |
| Costs relating to former operations | 13 | – |
| Litigation Settlement | – | 260 |
| **Items outside the normal course of business:** | | |
| Costs of group restructure | 1,532 | 257 |
| Transaction fees | 844 | 228 |
| Italian tax related costs relating to prior years | 24 | – |
| Stock-based compensation expense | 2,080 | 1,251 |
| Depreciation and amortization | 9,700 | 11,120 |
| Total other expense, net | 4,344 | (437) |
| Income tax | (93) | 83 |
| **Adjusted EBITDA** | $ 13,689 | $ 12,403 |
| **Adjusted EBITDA** | £ 10,498 | £ 8,862 |
| *Exchange Rate - $to £* | *1.30* | *1.40* |

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) “Costs relating to former operations” refers to gains and losses from our Mexican SBG division, which ceased trading prior to the years shown in the consolidated financial statements included in this report. This affects Server Based Gaming results.

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

(4) “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.

(5) 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.

(6) “Italian tax related costs relating to prior years invoicing” relate to VAT charges and associated costs, relating to prior years, imposed on our Virtual Sports segment following changes in interpretation of legislation and an ongoing VAT audit.

(7) 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 thousands) | For the Three-Month Period ended Unaudited Mar 31, 2019 | Unaudited Mar 31, 2018 |
|---|---|---|
| **Net revenues** | $ 33,671 | $ 37,453 |
| Less Nil Margin Sales | — | (3,609) |
| **Adjusted Revenue** | **$ 33,671** | **$ 33,843** |
| **Adjusted Revenue** | **£ 25,836** | **£ 24,181** |
| *Exchange Rate - $ to £* | $ 1.30 | $ 1.40 |

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. A reconciliation from revenue, as shown in our Consolidated Statements of Operations and Comprehensive Loss included elsewhere in this report, to Adjusted Revenue is shown below.

**Liquidity and Capital Resources**

***Three Months ended March 31, 2019 compared to Three Months ended March 31, 2018***

| | Period Ended | | Variance |
|---|---|---|---|
| (in thousands) | Mar 31, 2019 | Mar 31, 2018 | 2019 to 2018 |
| Net loss | ($ 4,953) | ($ 498) | ($ 4,455) |
| Non-cash interest expense including amortization of fees | 626 | 1,957 | (1,331) |
| Change in fair value of derivative and earnout liabilities and stock-based compensation expense | 3,123 | (4,056) | 7,179 |
| Foreign currency translation on senior bank debt and cross currency swaps | (1,177) | 0 | (1,177) |
| Depreciation and amortization | 9,700 | 11,120 | (1,420) |
| Other net cash generated/(utilized) by operating activities | 976 | (1,854) | 2,830 |
| Net cash provided by operating activities | 8,295 | 6,669 | 1,626 |
| Net cash used in investing activites | (5,186) | (7,121) | 1,935 |
| Net cash used in/(generated by) financing activities | (164) | 3,052 | (3,216) |
| Effect of exchange rates on cash | 100 | (170) | 270 |
| Net increase in cash and cash equivalents | $ 3,045 | $ 2,430 | $ 615 |

***Net cash provided by operating activities.*** In the period, net cash inflow generated by operating activities was $8.3 million, compared to a $6.7 million inflow in the prior year, representing a $1.6 million improvement in cash generation.

Non-cash interest expense decreased by $1.3 million, to $0.6 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 $7.2 million from an outflow of $4.1 million to an inflow of $3.1 million. Movements in the market value of the stock price resulted in a $6.0 million higher earnout inflow in the current period, a $0.8 million higher inflow relating to stock-based compensation expense and a higher inflow of $0.3 million due to the fair valuation of the cross-currency swaps executed in August 2018 on the new debt compared to the revaluation of derivative liabilities in the previous period.

Foreign currency translation on senior bank debt and cross currency swaps following the refinancing on August 14, 2018 resulted in a charge in the period of $1.2 million as a result of the movement in exchange rates during the current period.

Depreciation, amortization and impairment reduced by $1.4 million to a charge of $9.7 million due principally to lower machine depreciation of $0.9 million and lower development costs and licenses amortization of $0.4 million.

Other net cash generated by operating activities increased by $2.8 million, to a $1.0 million inflow. This increase was largely due to movements in inventory levels of $2.3 million, accounts payable levels of $2.5 million and timing differences relating to payroll payment dates of $2.0 million. These were offset by the reduction in Greece deferred revenue creditor levels in the quarter as it is recognized through the profit and loss account. In the prior year, levels increased due to the roll out of machines into Greece of $4.2 million. Inventory levels decreased in the current year due to lower levels of machine build, compared to an increase in the previous year due to the roll out of machines into Greece and the building of Flex 4k machines. Supplier timing and relative activity levels and the timing of the 1 April payroll resulted in benefits from accounts payable and payroll creditors. The payroll creditor movement is expected to reverse in the next quarter.

***Net cash used in investing activities.*** Net cash used in investing activities decreased by $1.9 million, to $5.2 million. The decrease was attributable to lower levels of machine spending compared to the prior year which included a number of machines capitalized relating to the Greece roll out.

***Net cash used by financing activities.*** In the current period, net cash used by financing activities was $0.2 million, compared to a $3.2 million inflow in the prior year. This was due to an increase in the level of revolver utilization in the prior year prior to the debt refinancing.

***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 March 31, 2019, we had liquidity of $19.0 million in cash and cash equivalents plus a further $9.5 million of an undrawn revolver facility. This compares to $13.4 million of cash and cash equivalents plus a further $7.0 million of an undrawn revolver facility at the end of last year. We had a working capital inflow of $1.0 million in 2019, compared to a $1.9 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 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 March 31, 2019, $1.9 million of our $19.0 million of cash and cash equivalents had arisen in Greece and was being held there 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 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 May 2020. If the Company were to undertake any acquisitions, it might be required to finance them, in whole or in part, by issuing additional equity or debt securities or increasing its borrowing levels.

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 to consolidate and relocate certain of its operations in the United Kingdom 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 $7.8 million, as we expect to incur approximately $2.3 million of capital investment for the new office, and approximately $5.5 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. These costs have already started to be incurred and we expect the majority of these costs to be incurred during 2019.

***Long Term and Other Debt***

| *(In thousands)* | March 31, 2019 | | March 31, 2018 | |
|---|---|---|---|---|
| Cash held | £ 14,607 | $ 19,033 | £ 9,577 | $ 13,418 |
| Revolver drawn | — | — | (12,320) | (17,262) |
| Original principal senior debt | (107,444) | (140,000) | (72,500) | (101,580) |
| Compounded PIK interest | — | — | (10,603) | (14,856) |
| PIK interest accrued | — | — | (494) | (692) |
| Cash interest accrued | (127) | (165) | (2,640) | (3,700) |
| Finance lease creditors | (211) | (275) | (573) | (803) |
| Total | (£ 93,175) | ($ 121,407) | (£ 89,553) | ($ 125,473) |

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 $9.8 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 March 31, 2019, the Company had bank facilities of £114.9 million (equivalent to approximately $149.8 million), consisting of a senior term loan facility of £107.4 million (equivalent to $140.0 million) and a revolving credit facility of £7.5 million (equivalent to approximately $9.8 million). As of March 31, 2019, the Company had aggregate borrowings under the term loan facility of £107.4 million (equivalent to $140.0 million). As of March 31, 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 March 31, 2019 was the equivalent of 11.60% 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 March 31, 2018, the Company had bank facilities of £90.0 million (equivalent to approximately $126.1 million), consisting of a senior term loan facility of £72.5 million (equivalent to $101.6 million) and a revolving credit facility of £17.5 million (equivalent to approximately $24.5 million). As of March 31, 2018, the Company had aggregate borrowings under the term loan facility of £72.5 million (equivalent to $101.6 million). As of March 31, 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 March 31, 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 March 31, 2019, the Company had no aggregate borrowings under the revolving credit facility. 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 March 31, 2018, the Company had aggregate borrowings under the revolving credit facility of £12.3 million (equivalent to $17.3 million). As of March 31, 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 5.48% 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 amounts so used as of March 31, 2018 was $0.3 million.

Debt issuance fees were capitalized at the time the debt was issued. As of March 31, 2019, the amount of debt issuance fees capitalized was $9.3 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, $1.2 million had been charged by March 31, 2019.

***Debt Covenants***

Under our debt facilities in place as of March 31, 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 US 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 March 31, 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 March 31, 2018 were $1.4 million, $0.2 million and -$4.8 million.

There were no breaches of the debt covenants in the periods ended March 31, 2019 and March 31, 2018.

***Liens and Encumbrances***

As of March 31, 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 March 31, 2019, our contractual obligations were as follows:

| **Contractual Obligations (in thousands)** | **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) | $ 33,603 | $ 1,102 | $ 9,852 | $ 22,648 | $ — |
| | | | | | |
| **Financing activities** | | | | | |
| Senior bank debt - principal repayment | 140,000 | — | — | 140,000 | — |
| Cross currency swaps in respect of interest on long term debt | 38,581 | 15,500 | 23,081 | — | — |
| Finance lease payments | 275 | 274 | 1 | — | — |
| Interest on non-utilisation fees | 401 | 218 | 183 | — | — |
| Total | $ 212,860 | $ 17,095 | $ 33,117 | $ 162,648 | $ — |

**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 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.

**Off-Balance Sheet Arrangements**

As of March 31, 2019, there were no off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

**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 exercise its judgment. 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 revenues 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 March 31, 2019, we had £107.4 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 $0.4 million per quarter. If the floating interest rates increased by 5%, the additional interest charge would be approximately $1.8 million per quarter.

In connection with the 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 currency of our subsidiaries, which is not necessarily GBP. Excluding intercompany balances, our Euro functional currency net assets total approximately $4.1 million and our US Dollar functional currency net liabilities total approximately $142.7 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 March 31, 2019 would result in translation adjustments of approximately $0.5 million and $18.6 million, respectively, recorded in other comprehensive loss. Of the $142.7 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 March 31, 2019 were €2.1 million and $5.9 million, respectively. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of March 31, 2019 would result in translation adjustments of approximately $0.2 million and $0.5 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 $0.1 million and would result in translation adjustments of approximately $12.7 million, recorded in other comprehensive loss.

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”.

**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 March 31, 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. In addition to the risk factors below, you should carefully consider the risk factors discussed in our most recent Form 10-K report, 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 the three months ended March 31, 2019. During the three months ended March 31, 2019, there were three customers that each represented at least 10% of our revenues, accounting for 23%, 14% 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 months ended March 31, 2019. During the three months ended March 31, 2019, we earned approximately 66% of our revenue in the UK, 14% in Greece, 13% in Italy and the remaining 7% 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.**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). 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.

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

In March 2019, the Company issued an aggregate of 1,323,558 shares of the Company's common stock, par value $0.0001 per share (the "Earnout Shares"), in accordance with the earn-out provisions under the Share Sale Agreement, dated July 13, 2016, by and among the Company (f/k/a Hydra Industries Acquisition Corp.), the Vendors named therein, DMWSL 632 Limited, DMWSL 632 Limited and Gaming Acquisitions Limited. The Earnout Shares were issued pro rata to the Vendors under the Share Sale Agreement in reliance upon exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), provided under Section 4(a)(2) of the Securities Act and Regulation D thereunder.

In January 2019, we granted an aggregate of 572,345 RSUs to members of management and other participants under the Company's 2018 Omnibus Incentive Plan, which is not covered by a registration statement. The issuances did not involve a public offering of securities and, accordingly, the Company believes that the transactions were exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof and Rule 506 of Regulation D promulgated thereunder.

## 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 |
|---|---|
| 10.1 | Amendment No. 1 to Note Purchase Agreement and Guaranty, dated as of January 22, 2019, between Gaming Acquisitions Limited and HG Vora Special Opportunities Master Fund, Ltd., incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Company, filed on February 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. |
| 10.3*# | Forms of Grant Agreement under the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan. |
| 10.4*# | Inspired Entertainment, Inc. Short-Term Incentive Bonus Plan (adopted as of March 27, 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.
# Indicates management contract or compensatory plan.

## 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: May 10, 2019 | /s/ A. Lorne Weil<br>Name: A. Lorne Weil<br>Title: Executive Chairman<br>(Principal Executive Officer) |
| Date: May 10, 2019 | /s/ Stewart F.B. Baker<br>Name: Stewart F.B. Baker<br>Title: Executive Vice President and<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

**Exhibit 10.2**

**AMENDMENT LETTER**

To: **Inspired Entertainment, Inc.**
c/o Ground Floor
3 The Maltings
Wetmore Road
Burton on Trent
Staffordshire
DE141SE
(as the Parent acting for itself and as Obligors' Agent) (the "**Parent**")

24th April 2019

Dear Sirs

**REVOLVING FACILITIES AGREEMENT DATED 13 AUGUST 2018 AND MADE BETWEEN, AMONGST OTHERS, INSPIRED ENTERTAINMENT, INC (AS PARENT), LLOYDS BANK PLC (AS ARRANGER, ORIGINAL LENDER AND AGENT) AND CORTLAND CAPITAL MARKET SERVICES LLC (AS SECURITY AGENT) AS AMENDED ON 25 SEPTEMBER 2018 AND AS FURTHER AMENDED, RESTATED, SUPPLEMENTED OR VARIED FROM TIME TO TIME PRIOR TO THE DATE OF THIS LETTER (THE "FACILITIES AGREEMENT")**

1. DEFINITIONS AND CAPACITY

1.1 Unless a contrary intention is indicated, terms used in this letter shall have the meaning given to them in the Facilities Agreement. References to Clauses, Paragraphs, and Schedules are references to Clauses and Paragraphs of and Schedules to the Facilities Agreement unless otherwise specified.

1.2 In addition:

"**Effective Date**" means the date on which the Agent receives a copy of this letter duly signed by the Parent; and

"**Party**" means a party to this letter.

2. DESIGNATION

2.1 This letter is a Finance Document.

2.2 This letter constitutes an amendment letter as contemplated by Clause 39 *(Amendments and waivers).*

3. AMENDMENT

3.1 The Parties agree that the Facilities Agreement shall be amended in accordance with paragraph 3.2 below by:

(a) amending Clause 1.1 *(Definitions)* to add the following definition in appropriate alphabetical order:

""**Project Alabama**" means the consolidation of the Birmingham, Bangor, London, Wolverhampton and Burton-on-Trent offices into a new office in Burton-on-Trent."

(b) deleting paragraph (b) of Clause 15.1 *(Commitment* fee) and replacing it with:

(b) The accrued commitment fee is payable on the Closing Date and after the Closing Date on the last day of each successive period of three Months which ends during the relevant Availability Period on the last day of the relevant Availability Period and on the cancelled amount of the relevant Lender's Commitment at the time the cancellation is effective."

(c) adding the following words after the words "new customer or geographical markets" at the end of paragraph (b) of the definition of "Consolidated Growth Capital Expenditures" in Clause 24.1 *(Financial definitions):*

"(including the first $1,500,000 of capital expenditures made pursuant to the expansion and/or upgrading of Parent's corporate headquarters in connection with Project Alabama)."

(d) deleting subsection (i)(b)(1) of the definition of "Fixed Charge Cover Ratio" in Clause 24.1 *(Financial definitions)* and replacing it with:

"(1) cash expenditures in an amount not to exceed (x) $6,000,000 in any Relevant Period ending on or before 30 September 2019 in respect of any extraordinary, exceptional or unusual items (including fees, costs and expenses associated with Project Alabama), (y) $5,500,000 in any Relevant Period ending on 31 December 2019, 31 March 2020 and 30 June 2020 in respect of any extraordinary, exceptional or unusual items (including fees, costs and expenses associated with Project Alabama) and (z) $2,000,000 for any Relevant Period ending on 31 December 2020 and thereafter in respect of any extraordinary, exceptional or unusual items,"

(e) deleting "$5,000,000" in the final line of paragraph (c) of Clause 24.2 *(Financial condition)* and replacing it with "£5,000,000".

3.2 The amendment set out in paragraph 3.1 above shall be effective from the Effective Date.

4. CONFIRMATIONS

4.1 The Parent (for itself and as Obligors' Agent for and on behalf of each other Obligor) confirms that, notwithstanding the amendment effected by this letter:

(a) each of the Transaction Security Documents will remain in full force and effect and will continue to constitute legal, valid and binding obligations of the Obligors (subject to all necessary registrations of the Transaction Security Documents) enforceable in accordance with their terms; and

(b) each of the security interests created by the Transaction Security Documents will continue in full force and effect.

4.2 The Parent (for itself and as Obligors' Agent for and on behalf of each other Obligor) confirms that, notwithstanding the amendment to the Facilities Agreement being effected by this letter, the guarantee and indemnity given by it in Clause 21 *(Guarantee and Indemnity)* will remain in full force and effect and will continue to constitute its legal, valid and binding obligations enforceable in accordance with its terms.

5. CONTINUANCE OF THE FACILITIES AGREEMENT

5.1 Save as expressly amended by this letter, all terms and conditions contained in the Facilities Agreement and the other Finance Documents shall remain in full force and effect. The Facilities Agreement and this letter shall after the Effective Date be read and construed as one document and references in the Facilities Agreement and in each Finance Document to the Facilities Agreement shall be read and construed as references to the Facilities Agreement as amended by this letter. If there is any inconsistency between paragraph 3 of this letter and the Facilities Agreement, the terms of this letter shall prevail.

5.2 The Parent (for itself and as Obligors' Agent for and on behalf of each other Obligor) confirms its knowledge and acceptance of the Facilities Agreement as amended by this letter with effect from the Effective Date and agrees that, with effect from the Effective Date, it will be bound by the terms of the Facilities Agreement as amended by this letter.

6. REPEATING REPRESENTATIONS

6.1 The Repeating Representations are deemed to be repeated by the Parent (for itself and as Obligors' Agent for and on behalf of each other Obligor) as at the date of this letter and as at the Effective Date.

6.2 The Parent (for itself and as Obligors' Agent for and on behalf of each other Obligor) acknowledges that the Lenders have entered into this letter in full reliance on the representations and warranties made by it in the terms stated in this paragraph 6.

7. FURTHER ASSURANCE

The Parent shall, and the Parent shall procure that each other member of the Group shall, at the request of the Agent and at its own expense, do all such acts and things necessary to give full effect to the amendment to the Facilities Agreement effected or to be effected pursuant to this letter.

8. FEES, COSTS AND EXPENSES

8.1 The Parent shall, or shall procure than another Obligor shall, within three Business Days of demand, reimburse each of the Agent and the Security Agent for the amount of all costs and expenses (including agreed legal fees) reasonably incurred by the Agent and the Security Agent (and, in the case of the Security Agent, by any Receiver or Delegate) together with any VAT thereon incurred by them in connection with the negotiation, preparation and execution of this letter.

9. AFFIRMATION

9.1 For the avoidance of doubt, no waivers are given under this letter in respect of any breach of, or Default under, the Facilities Agreement or any other Finance Document at any time.

9.2 This letter is delivered without prejudice to any rights the Finance Parties may have at any time now or in the future in relation to any outstanding Default or any other circumstances or matters other than as specifically referred to in this letter (and whether subsisting at the date of this letter or otherwise), which rights shall remain in full force and effect.

10. COUNTERPARTS

This letter may be executed in any number of counterparts, each of which when executed shall be an original but all of which when taken together shall constitute a single instrument.

11. GOVERNING LAW AND JURISDICTION

11.1 This letter and any non-contractual obligations arising out of or in connection with it are governed by English law.

11.2 Clause 45 *(Enforcement)* of the Facilities Agreement shall apply to this letter as if set out in full in this letter and as if reference in those provisions to this **"Agreement"** were a reference to this letter.

Please sign and return the attached copy of this letter to indicate your acknowledgement, and acceptance, of the terms of this letter.

Hogan Lovells

Yours faithfully

/s/ Steven O'Kelly

for and on behalf of
**Lloyds Bank plc**
as Agent for and on behalf of the Finance Parties

We hereby accept the amendment contain in your letter dated 24 April 2019 of which this is a duplicate and confirm our agreement to the terms and conditions therein contained.

/s/ Stewart Baker (signature)
Stewart Baker (name)
24 April 2019 (date)

Hogan Lovells

**Exhibit 10.3**

*Time-Based Form of RSU Agreement*
*2019 Awards*
*Three-Year Vesting*

**INSPIRED ENTERTAINMENT, INC.**
**2018 OMNIBUS INCENTIVE PLAN**

**Restricted Stock Unit Award Agreement**

This RESTRICTED STOCK UNIT AWARD AGREEMENT (this " **Agreement**") is entered into as of January 28, 2019 (the "**Grant Date**"), and is between Inspired Entertainment, Inc., a Delaware corporation (the "**Company**"), and [PARTICIPANT NAME] (the " **Participant**"), an employee of the Company or one of its subsidiaries. Any term capitalized but not defined in this Agreement shall have the meaning set forth in the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (the "**Plan**").

1 . *Grant of Units*. In accordance with the terms of the Plan and subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants to the Participant [NUMBER] Restricted Stock Units (each a "**Unit**" and collectively, the "**Units**").

2 . *Vesting of Units.* Subject to Section 20 of this Agreement, the Units shall vest (i.e., the restrictions shall lapse) in one-third increments on each of December 31, 2019, December 31, 2020 and December 31, 2021. Notwithstanding the foregoing, and except as otherwise provided in Section 5 of this Agreement or the Plan, if the Participant ceases to provide employment or other services to the Company or a subsidiary of the Company for any reason, all unvested Units shall be automatically and immediately forfeited and terminated.

3. *Settlement of Units.* Within thirty (30) days of an applicable vesting date, the Company will issue in certificated or uncertificated form to the Participant a number of shares of the Company's common stock (the "**Stock**") corresponding to the number of Units that vested, less the number, if any, withheld in satisfaction of applicable withholding taxes as discussed in Section 4.

4. *Taxes; Withholding Obligation*.

(a) The Participant shall be ultimately liable and responsible for all federal, state, local or foreign income or employment taxes owed in connection with the Units and/or required to be withheld, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Units. The Company makes no representation or undertaking regarding the domestic or foreign tax treatment of the Participant in connection with the grant or vesting of the Units, the issuance of shares of Stock upon settlement of the Units or the subsequent sale of such shares of Stock. The Company is not committed and is not under any obligation to structure the Units to reduce or eliminate the Participant's tax liability.

(b) As a condition to the Company's delivery of shares of Stock pursuant to Section 3, the Participant shall be required to make appropriate arrangements for the satisfaction of any applicable domestic or foreign tax or employment or social insurance withholding obligation which may include tendering to the Company a cash payment equal to the withholding amount due in accordance with procedures adopted from time to time by the Company. If withholding of taxes and/or social insurance is required at the time of vesting and the Participant has not made other arrangements satisfactory to the Company, the Company will withhold from any shares deliverable upon the vesting of Units a number having a Fair Market Value equal to the withholding taxes due.

5 . *Effect of Termination of Employment/Service*. If the Participant ceases to provide employment or other services to the Company or a subsidiary of the Company for any reason all unvested Units shall be automatically and immediately forfeited and terminated; provided that, if there is a conflict between this provision and the provisions of any employment (or similar) agreement between the Company (or a subsidiary of the Company) and the Participant in effect at the time of termination, the provisions of such employment (or similar) agreement shall govern. Notwithstanding the foregoing, in the event:

- the Participant ceases to provide employment or other services due to the Participant's death or

- a Change in Control occurs AND the Participant's employment or other services are terminated without Cause within the twelve (12) month period immediately following such Change in Control *(such that the Participant's Units would otherwise be cancelled (e.g., not be retained in accordance with Section 14(g) of the Plan)),*

the Participant's unvested Units shall vest as of the date of such termination.

6. *Clawback*. By accepting the award of Units, the Participant agrees that the Company may recover some or all of the shares of Stock delivered with respect to such award or recoup some or all of the value thereof via offset from other amounts owed by the Participant to the Company or any of its Affiliates, at any time in the three calendar years following delivery thereof, if and to the extent that the Committee concludes that (i) U.S. federal or state law, the laws of any other jurisdiction in which the Participant has been employed by or providing services to the Company during the term of the award, or the listing requirements of any exchange on which the Company's stock is listed for trading so require, or (ii) as required by Section 304 of the U.S. Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise after a restatement of the Company's financial results as reported to the U.S. Securities and Exchange Commission. By accepting an award hereunder, and by accepting any delivery of shares of Stock hereunder, the Participant agrees to promptly comply with any Company demand for recovery or recoupment hereunder.

7 . *Transferability of Units*. Except as otherwise provided herein, the Participant may not sell, transfer, pledge, assign or otherwise alienate or hypothecate Units other than by will or the laws of descent and distribution or equivalent laws in the jurisdiction of the Participant's employment. Any attempt to transfer Units in contravention of this Section 7 is null and void ab initio.

8 . *Compliance with Securities Laws and other Requirements*. Notwithstanding anything herein to the contrary, if at any time the Company determines that issuing or distributing shares of Stock would violate applicable securities laws or other legal or regulatory requirements, the Company will not issue or distribute such shares until such time as distribution of the shares would not violate applicable securities laws and other requirements. The Committee may declare any provision of this Agreement or action of its own null and void, if it determines the provision or action fails to comply with the applicable short-swing trading rules under the securities laws. As a condition to issuing or distributing shares of Stock to the Participant, until such time as such shares have been registered pursuant to an effective registration statement under the securities laws, or an exemption from such requirements is available, the Company may require the Participant to make such written representations as it deems necessary or desirable to comply with applicable securities laws.

9. *No Limitation on Rights of the Company*. The grant of Units does not and will not in any way affect the right or power of the Company to make adjustments, reclassifications or changes in its capital or business structure, or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

10. *Plan and Agreement Not a Contract of Employment or Service*. Neither the Plan nor this Agreement is a contract of employment or services, and no terms of the Participant's employment or services agreement shall be affected in any way by the Plan, this Agreement or related instruments, except to the extent specifically expressed therein. Neither the Plan nor this Agreement shall be construed as conferring any legal rights on the Participant to continue to be employed or remain in service with the Company or any of its Affiliates, nor will it interfere with the Company's or any of its Affiliates' right to discharge the Participant with or without Cause or to otherwise deal with the Participant regardless of the existence of the Plan, this Agreement or Units.

11. *Participant to Have No Rights as a Stockholder*. Before the date as of which the shares of Stock are issued to the Participant, the Participant will have no rights as a shareholder with respect to those shares.

12. *Notice*. Any notice or other communication required or permitted under this Agreement must be in writing and must be delivered personally, sent by certified, registered or express mail, or sent by overnight courier, at the sender's expense. Notice shall be deemed given when delivered personally or, if mailed, three days after the date of deposit in the United States mail or, if sent by overnight courier, on the regular business day following the date sent. Notice to the Company should be sent to Inspired Entertainment, Inc., 250 West 57$^{th}$ Street, Suite 2223, New York, NY 10107, Attention: General Counsel. Notice to the Participant should be sent to the address the Participant has on file with the Company. Either party may change the person and/or address to whom or which the other party must give notice under this Section 12 by giving such other party written notice of such change, in accordance with the procedures described above.

13. *Successors*. All obligations of the Company under this Agreement will be binding on any successor to the Company, whether the existence of the successor results from a direct or indirect purchase of all or substantially all of the business of the Company, or a merger, consolidation, or otherwise.

14. *Governing Law*. To the extent not preempted by federal law, this Agreement will be construed and enforced in accordance with, and governed by, the laws of the State of New York, without giving effect to any conflicts of law principles that would require the application of the law of any other jurisdiction. The Company and the Participant hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with the Units and this Agreement shall be brought only in the courts in the State of New York, County of New York, including the federal courts located therein should federal jurisdiction requirements exist, and (ii) consent to submit to the exclusive jurisdiction of the such courts for purposes of any action or proceeding arising out of or in connection with the Units or this Agreement.

15. *Plan Document Controls*. The rights granted under this Agreement are in all respects subject to the provisions set forth in the Plan to the same extent and with the same effect as if set forth fully in this Agreement. If the terms of this Agreement conflict with the terms of the Plan document, the Plan document will control.

16. *Amendment of the Agreement*. The Company and the Participant may amend this Agreement only by a written instrument signed by both parties.

17. *Counterparts*. The parties may execute this Agreement in one or more counterparts, all of which together shall constitute but one Agreement.

18. *Code Section 409A*. The issuance of shares of Stock under this Agreement shall be provided in a manner that complies with Code Section 409A and any ambiguity herein shall be interpreted so as to be consistent with the intent of this paragraph. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on the Participant by Code Section 409A or damages for failing to comply with Code Section 409A. Notwithstanding anything herein to the contrary, if the Participant is a "specified employee" as such term is defined under Code Section 409A at the time of a separation from service and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such separation from service is necessary in order to prevent any accelerated recognition of income or additional tax under Code Section 409A, then the Company will defer the issuance of shares of Stock hereunder (without any reduction therein) until the date that is at least six (6) months following the Participant's separation from service with the Company or the earliest date permitted under Code Section 409A (e.g., immediately upon the Participant's death), whereupon the Company will promptly issue to the Participant the shares of Stock that would have otherwise been previously issued to the Participant under this Agreement during the period in which such issuance was deferred.

19. *Data Privacy*. The Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section 19 by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering, and managing the Plan and this Agreement. In furtherance of such implementation, administration, and management, the Company and its Affiliates may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address, telephone number(s), date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its Affiliates, and details of this Agreement (the "**Data**"). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and this Agreement, the Company and its Affiliates may each transfer the Data to any third parties assisting the Company in the implementation, administration, and management of the Plan and this Agreement. Recipients of the Data may be located in the Participant's country or elsewhere, and the Participant's country may have different data privacy laws and protections. The Participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and this Agreement, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of Stock. The Data related to the Participant will be held as long as is necessary to implement, administer, and manage the Plan and this Agreement. The Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting the Participant's local human resources representative. The Company may cancel the Participant's eligibility to participate in the Plan, and in the Committee's discretion, the Participant may forfeit any the Units if the Participant refuses or withdraws the consents described herein.

20. *Subject to Stockholder Approval.* The Plan was adopted by the Company on September 28, 2018. The Plan is subject to approval by stockholders of the Company at an annual or special meeting of stockholders of the Company, and the Participant's rights with respect to the Units shall be subject to such approval by stockholders. This Agreement and the grant of the Units shall be effective as of the date hereof but are subject to such stockholder approval, and if stockholders fail to approve the Plan prior to December 31, 2019, all of the Units granted hereunder shall be cancelled as of such date.

21. *Entire Agreement.* This Agreement and any other documents to be executed to implement its provisions together constitute the entire agreement between the parties pertaining to the subject matter hereof, superseding all prior and contemporaneous agreements, representations and understandings of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Company and the Participant have duly executed this Agreement as of the date first written above.

INSPIRED ENTERTAINMENT, INC.

By: ______________________________

Name:
Title:

______________________________

[Name]

**Exhibit 10.3**

*Performance-Based Form of RSU Agreement*
*2019 Awards*
*One-Year Performance Period*
*Three-Year Time-Based Vesting Period*

**INSPIRED ENTERTAINMENT, INC.**
**2018 OMNIBUS INCENTIVE PLAN**

**Performance Unit Award Agreement**

This PERFORMANCE UNIT AWARD AGREEMENT (this " **Agreement**") is entered into as of January 28, 2019 (the "**Grant Date**"), and is between Inspired Entertainment, Inc., a Delaware corporation (the "**Company**"), and [PARTICIPANT NAME] (the "**Participant**"), an employee of the Company or one of its subsidiaries. Any term capitalized but not defined in this Agreement shall have the meaning set forth in the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (the "**Plan**").

2 2 . *Grant of Performance Units*. In accordance with the terms of the Plan and subject to the terms and conditions of the Plan and this Agreement, including the time-based service requirements through the scheduled Vesting Date (as defined in Section 2(b) below), the Company hereby grants to the Participant [NUMBER] Performance Units (each a "**Unit**" and collectively, the "**Units**"). The final number of Units that ultimately may become eligible to vest on the Vesting Date shall be determined by the Compensation Committee of the Company's Board of Directors (the "**Committee**") in accordance with the Threshold Performance Criteria for the Performance Period set forth in Appendix A hereto (the " **Performance Condition**"), and may range from 0% to 200% of the Units.

2 3 . *Vesting of Units*. The vesting of Units is contingent on attainment of the Performance Condition for the Performance Period and the Participant's continued employment through the Vesting Date, except as otherwise provided in Section 5 of this Agreement or in the Plan. The Committee shall make its determinations with respect to attainment of the Performance Condition following the Performance Period.

(a) If the Committee determines that the Performance Condition has not been met, all of the Units shall be immediately forfeited and terminated.

(b) Subject to Sections 5 and 20 of this Agreement, if the Committee determines that the Performance Condition has been met, the number of Units determined by the Committee in accordance with Appendix A shall be eligible to vest (i.e., the restrictions lapse) if the Participant remains in employment through December 31, 2021 (the "**Vesting Date**").

***NOTE**: For the avoidance of doubt, except as provided under Section 5 of this Agreement (e.g., the Participant's death, the Participant's termination in connection with a Change in Control or pursuant to a specific provision of the Participant's employment agreement) or the Plan, the Units will only be eligible to vest IF: 1) the Committee determines that the Performance Condition has been met AND 2) the Participant remains employed throughout the three year period from the Grant Date to the Vesting Date.*

2 4 . *Settlement of Units.* Within thirty (30) days of the Vesting Date, the Company will issue in certificated or uncertificated form to the Participant a number of shares of the Company's common stock (the "**Stock**") corresponding to the number of Units that vested, less the number, if any, withheld in satisfaction of applicable withholding taxes as discussed in Section 4. In no event shall the date of settlement be later than two-and-one-half (2 $^{1}/_{2}$) months after the later of (i) the end of the Company's fiscal year in which the Vesting Date occurs or (ii) the end of the calendar year in which the Vesting Date occurs.

25. Taxes; Withholding Obligation.

(a) The Participant shall be ultimately liable and responsible for all federal, state, local or foreign income or employment taxes owed in connection with the Units and/or required to be withheld, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Units. The Company makes no representation or undertaking regarding the domestic or foreign tax treatment of the Participant in connection with the grant or vesting of the Units, the issuance of shares of Stock upon settlement of the Units or the subsequent sale of such shares of Stock. The Company is not committed and is not under any obligation to structure the Units to reduce or eliminate the Participant's tax liability.

(b) As a condition to the Company's delivery of shares of Stock pursuant to Section 3, the Participant shall be required to make appropriate arrangements for the satisfaction of any applicable domestic or foreign tax or employment or social insurance withholding obligation which may include tendering to the Company a cash payment equal to the withholding amount due in accordance with procedures adopted from time to time by the Company. If withholding of taxes and/or social insurance is required at the time of vesting and the Participant has not made other arrangements satisfactory to the Company, the Company will withhold from any shares deliverable upon the vesting of Units a number having a Fair Market Value equal to the withholding taxes due.

26. *Effect of Termination of Employment/Service*. If the Participant ceases to provide employment or other services to the Company or a subsidiary of the Company for any reason prior to the Vesting Date, the Units shall be automatically and immediately forfeited and terminated; provided that, if there is a conflict between this provision and the provisions of any employment (or similar) agreement between the Company (or a subsidiary of the Company) and the Participant in effect at the time of termination, the provisions of such employment (or similar) agreement shall govern. Notwithstanding the foregoing, in the event:

- the Participant ceases to provide employment or other services due to the Participant's death or

- a Change in Control occurs AND the Participant's employment or other services are terminated without Cause within the twelve (12) month period immediately following such Change in Control *(such that the Participant's Units would otherwise be cancelled (e.g., not be retained in accordance with Section 14(g) of the Plan))*,

the Participant's Units shall vest as of the date of such termination; and, for the avoidance of doubt, the number of Units that vest shall equal the number specified in Section 1 above if the termination date is during the Performance Period (i.e., the number issuable for target-level performance) and otherwise shall be determined in accordance with Section 2 above if the termination date is subsequent to the Performance Period (i.e., the number issuable based on the extent to which the Performance Condition has been attained in accordance with Appendix A).

27. *Clawback*. By accepting the award of Units, the Participant agrees that the Company may recover some or all of the shares of Stock delivered with respect to such award or recoup some or all of the value thereof via offset from other amounts owed by the Participant to the Company or any of its Affiliates, at any time in the three calendar years following delivery thereof, if and to the extent that the Committee concludes that (i) U.S. federal or state law, the laws of any other jurisdiction in which the Participant has been employed by or providing services to the Company during the term of the award, or the listing requirements of any exchange on which the Company's stock is listed for trading so require, (ii) the performance criteria required for the vesting were not met, or not met to the extent necessary to support the amount of Units that vested, or (iii) as required by Section 304 of the U.S. Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise after a restatement of the Company's financial results as reported to the U.S. Securities and Exchange Commission. By accepting an award hereunder, and by accepting any delivery of shares of Stock hereunder the Participant agrees to promptly comply with any Company demand for recovery or recoupment hereunder.

28. *Transferability of Units*. Except as otherwise provided herein, the Participant may not sell, transfer, pledge, assign or otherwise alienate or hypothecate Units other than by will or the laws of descent and distribution or equivalent laws in the jurisdiction of the Participant's employment. Any attempt to transfer Units in contravention of this Section 7 is null and void ab initio.

29. *Compliance with Securities Laws and other Requirements*. Notwithstanding anything herein to the contrary, if at any time the Company determines that issuing or distributing shares of Stock would violate applicable securities laws or other legal or regulatory requirements, the Company will not issue or distribute such shares until such time as distribution of the shares would not violate applicable securities laws and other requirements. The Committee may declare any provision of this Agreement or action of its own null and void, if it determines the provision or action fails to comply with the applicable short-swing trading rules under the securities laws. As a condition to issuing or distributing shares of Stock to the Participant, until such time as such shares have been registered pursuant to an effective registration statement under the securities laws, or an exemption from such requirements is available, the Company may require the Participant to make such written representations as it deems necessary or desirable to comply with applicable securities laws.

30. *No Limitation on Rights of the Company*. The grant of Units does not and will not in any way affect the right or power of the Company to make adjustments, reclassifications or changes in its capital or business structure, or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

31. *Plan and Agreement Not a Contract of Employment or Service*. Neither the Plan nor this Agreement is a contract of employment or services, and no terms of the Participant's employment or services agreement shall be affected in any way by the Plan, this Agreement or related instruments, except to the extent specifically expressed therein. Neither the Plan nor this Agreement shall be construed as conferring any legal rights on the Participant to continue to be employed or remain in service with the Company or any of its Affiliates, nor will it interfere with the Company's or any of its Affiliates' right to discharge the Participant with or without Cause or to otherwise deal with the Participant regardless of the existence of the Plan, this Agreement or Units.

32. *Participant to Have No Rights as a Stockholder*. Before the date as of which the shares of Stock are issued to the Participant, the Participant will have no rights as a shareholder with respect to those shares.

33. *Notice*. Any notice or other communication required or permitted under this Agreement must be in writing and must be delivered personally, sent by certified, registered or express mail, or sent by overnight courier, at the sender's expense. Notice shall be deemed given when delivered personally or, if mailed, three days after the date of deposit in the United States mail or, if sent by overnight courier, on the regular business day following the date sent. Notice to the Company should be sent to Inspired Entertainment, Inc., 250 West 57th Street, Suite 2223, New York, NY 10107, Attention: General Counsel. Notice to the Participant should be sent to the address the Participant has on file with the Company. Either party may change the person and/or address to whom or which the other party must give notice under this Section 12 by giving such other party written notice of such change, in accordance with the procedures described above.

34. *Successors*. All obligations of the Company under this Agreement will be binding on any successor to the Company, whether the existence of the successor results from a direct or indirect purchase of all or substantially all of the business of the Company, or a merger, consolidation, or otherwise.

35. *Governing Law*. To the extent not preempted by federal law, this Agreement will be construed and enforced in accordance with, and governed by, the laws of the State of New York, without giving effect to any conflicts of law principles that would require the application of the law of any other jurisdiction. The Company and the Participant hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with the Units and this Agreement shall be brought only in the courts in the State of New York, County of New York, including the federal courts located therein should federal jurisdiction requirements exist, and (ii) consent to submit to the exclusive jurisdiction of the such courts for purposes of any action or proceeding arising out of or in connection with the Units or this Agreement.

36. *Plan Document Controls*. The rights granted under this Agreement are in all respects subject to the provisions set forth in the Plan to the same extent and with the same effect as if set forth fully in this Agreement. If the terms of this Agreement conflict with the terms of the Plan document, the Plan document will control.

37. *Amendment of the Agreement*. The Company and the Participant may amend this Agreement only by a written instrument signed by both parties.

38. *Counterparts*. The parties may execute this Agreement in one or more counterparts, all of which together shall constitute but one Agreement.

39. *Code Section 409A*. The issuance of shares of Stock under this Agreement shall be provided in a manner that complies with Code Section 409A and any ambiguity herein shall be interpreted so as to be consistent with the intent of this paragraph. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on the Participant by Code Section 409A or damages for failing to comply with Code Section 409A. Notwithstanding anything herein to the contrary, if the Participant is a "specified employee" as such term is defined under Code Section 409A at the time of a separation from service and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such separation from service is necessary in order to prevent any accelerated recognition of income or additional tax under Code Section 409A, then the Company will defer the issuance of shares of Stock hereunder (without any reduction therein) until the date that is at least six (6) months following the Participant's separation from service with the Company or the earliest date permitted under Code Section 409A (e.g., immediately upon the Participant's death), whereupon the Company will promptly issue to the Participant the shares of Stock that would have otherwise been previously issued to the Participant under this Agreement during the period in which such issuance was deferred.

40. *Data Privacy*. The Participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section 19 by and among, as applicable, the Company and its Affiliates for the exclusive purpose of implementing, administering, and managing the Plan and this Agreement. In furtherance of such implementation, administration, and management, the Company and its Affiliates may hold certain personal information about the Participant, including, but not limited to, the Participant's name, home address, telephone number(s), date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its Affiliates, and details of this Agreement (the "**Data**"). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and this Agreement, the Company and its Affiliates may each transfer the Data to any third parties assisting the Company in the implementation, administration, and management of the Plan and this Agreement. Recipients of the Data may be located in the Participant's country or elsewhere, and the Participant's country may have different data privacy laws and protections. The Participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and this Agreement, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any shares of Stock. The Data related to the Participant will be held as long as is necessary to implement, administer, and manage the Plan and this Agreement. The Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting the Participant's local human resources representative. The Company may cancel the Participant's eligibility to participate in the Plan, and in the Committee's discretion, the Participant may forfeit any the Units if the Participant refuses or withdraws the consents described herein.

41. *Subject to Stockholder Approval.* The Plan was adopted by the Company on September 28, 2018. The Plan is subject to approval by stockholders of the Company at an annual or special meeting of stockholders of the Company, and the Participant's rights with respect to the Units shall be subject to such approval by stockholders. This Agreement and the grant of the Units shall be effective as of the date hereof but are subject to such stockholder approval, and if stockholders fail to approve the Plan prior to December 31, 2019, all of the Units granted hereunder shall be cancelled as of such date.

42. *Entire Agreement.* This Agreement and any other documents to be executed to implement its provisions together constitute the entire agreement between the parties pertaining to the subject matter hereof, superseding all prior and contemporaneous agreements, representations and understandings of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Company and the Participant have duly executed this Agreement as of the date first written above.

INSPIRED ENTERTAINMENT, INC.

By: ____________________________

Name:

Title:

____________________________

[Name]

INSPIRED

**Appendix A**

**Performance Condition Vesting Criteria and Methodology**

| | |
|---|---|
| Participant: | [Name] |
| Target Number of Units: | [# of RSUs] |

**A. Performance Period**

[To be Inserted]

**B. Threshold Performance Criteria**

[To be Inserted]

**C. Unit Calculations Assuming Threshold Performance Criteria are Achieved**

[To be Inserted]

**D. Additional Factors or Information Regarding Performance Condition Methodology**

[To be Inserted]

**E. Committee Determinations**

Determinations as to achievement of Performance Criteria and Unit calculations shall be made by the Committee in its sole discretion following the Performance Period. The Committee may adjust awards and metrics based on extraordinary or unforeseen events and its determinations shall be binding and conclusive.

**NOTE: Service Vesting Conditions Continue through Vesting Date**
*Notwithstanding a Committee determination that applicable Performance Criteria for the Units have been achieved, the Units shall remain subject to the time-based service conditions specified in the Agreement through the scheduled Vesting Date (i.e., December 31, 2021).*

**Exhibit 10.4**

**Inspired Entertainment**

**Short-Term Incentive Bonus Plan**

(adopted as of 27 March, 2019)

I. ***PURPOSE***

The Inspired Entertainment fiscal year 2019 Short-Term Incentive Bonus Plan (the "Plan") is intended to provide incentives to certain employees of Inspired Entertainment, Inc., its subsidiaries and its participating affiliates (collectively, the "Company") to contribute to the success of the Company in its fiscal year commencing January 1 2019 and ending December 31 2019 ("2019"). The Plan offers eligible participants an opportunity to earn compensation in addition to their salaries, based upon the performance of the Company and the satisfaction of individual performance targets determined for each participant.

II. ***PLAN ADMINISTRATION***

The Plan has been approved by the Compensation Committee of the Company's Board of Directors (the "Committee"), and the Committee is responsible for administering the Plan. The Committee may delegate, on such terms and conditions as it may provide, certain authority and powers with respect to administration of the Plan to one or more directors serving on the Committee and/or to one or more officers or other personnel of the Company (including with respect to the participation of, and awards to, participants who are not executive officers of the Company). Subject to the terms of the Plan, the Committee will receive recommendations for 2019 from the Company's principal executive officer (the Executive Chairman of the Company or from two other members of the Office of the Executive Chairman) with respect to the operation and management of the Plan for the year including recommendations for the selection of eligible participants, bonus opportunity levels, performance criteria, and the amount and timing of any bonus payments.

III. ***ELIGIBILITY***

The executives and other employees eligible for participation in the Plan will be determined on an annual basis (being admitted one year, isn't a guarantee of participation in a later year). Duly determined participants under the Plan are also referred to herein as "Covered Employees".

Any bonus payment made under the Plan shall be purely discretionary and shall not form part of his or her contractual remuneration.

An individual whose employment is terminated for any reason, or who is under notice of termination (whether given by the individual or the Company) in both cases prior to the date on which bonus would otherwise be paid will not be eligible to receive any payment under the Plan.

If a person is hired for a position with the Company during 2019 and the position is within the category recommended to be eligible to receive a bonus under the Plan, that person may be eligible to receive a prorated portion of the annual bonus, as recommended by the Company's principal executive officer and/or determined by the Compensation Committee, depending on the person's particular position subject to consideration as further described above.

IV. ***BONUS POTENTIAL***

The bonus potential for Covered Employees shall be determined for 2019 including applicable threshold, target and maximum bonus potential for the year. Bonus potential for 2019 will be based on a percentage of the Covered Employee's base salary as of the beginning or end of the year, the prorated amount for the year or a fixed dollar amount, as determined by the Committee. Award opportunity levels corresponding to threshold, target and maximum levels of performance may vary by participant. The name and bonus potential of each participant will be set forth in a schedule approved by the Committee for 2019 (the "Bonus Potential Schedule"). The bonus potential set forth in the Bonus Potential Schedule may, at any time prior to payment of the bonus, be adjusted to reflect changes in the list of eligible participants or to the bonus potential for participants (upward or downward), in the absolute discretion of the Committee as it deems appropriate, to reflect, without limitation, changes to a person's position, title, or responsibilities, or, as appropriate, to reflect a transformative transaction (as determined by the Board or the Committee).

V. ***PLAN COMPONENTS***

The performance targets applicable for 2019 have been approved and include Company performance targets and individual performance targets. The weighting of the Plan components will also be established for this financial year.

**A. Company Performance Targets**

Bonuses are contingent upon the Company achieving specific Company performance as determined by the Committee with respect to each financial year (the "Company Performance Targets"). The following are examples of criteria that could be used to set Company Performance Targets and are not an exclusive list: (i) revenue; (ii) sales; (iii) profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures); (iv) earnings (which may include any calculation of earnings, including but not limited to earnings before interest and taxes, earnings before taxes, earnings before interest, taxes, depreciation and amortization and net earnings); (v) net income (before or after taxes, operating income or other income measures); (vi) cash (cash flow, cash generation or other cash measures); and (vii) stock price or performance; and (viii) total stockholder return. As determined by the Committee, the Company Performance Targets may be based on GAAP or non-GAAP results and any actual results may be adjusted by the Committee for one-time items or unbudgeted or unexpected items when determining whether the performance goals have been met. In certain cases, the Office of the Executive Chairman may recommend to the Compensation Committee that an element of Bonus is a divisional target as opposed to Company wide.

The Office of the Executive Chairman recommended for approval Company performance targets for 2019 and The Compensation Committee has reviewed, approved and thereby determined such Company performance targets for 2019.

**B. Individual Performance Targets**

Even if the Company has fully achieved the Company Performance Targets, an individual participant's bonus potential will be subject to an assessment of the individual's achievement of individual performance targets. The following are examples of criteria that could be used to set individual performance targets and are not an exclusive list: (i) budget management; (ii) cost of service; (iii) quality and service levels; (iv) product line achievements; (v) leadership/team participation and support and (vi) adherence to and compliance with Company values and behaviors.

The Committee may, in its sole discretion and at any time, reduce or eliminate a Covered Employee's award if it determines that such reduction or elimination is appropriate.

VI. ***TRANSFER/PROMOTION/DEMOTION***

If a participant is transferred to a new role during 2019, the bonus payment for 2019 will be calculated based on the base earnings the participant received during the relevant portions of 2019 in each role at the applicable target percentage(s) for each role unless determined otherwise by the Committee.

If a participant becomes ineligible for the Plan due to a transfer or demotion, the participant may be eligible to receive a prorated bonus based on the period of participation in the Plan as determined by the Committee. Any such prorated bonus would be paid at the same time as other bonus payments under the Plan.

VII. ***PAYOUT AND TAXATION***

Bonus payments that are approved by the Committee for 2019 shall be made as soon as administratively practicable after the completion of the Company's audited financial statements for 2019 subject to IX below. Further, if the Committee determines that payment of bonuses would jeopardize the ability of the Company to continue as a going concern or meet its banking covenants, bonuses may be reduced, eliminated or delayed.

Payroll taxes will be withheld from bonus payments as required by law. Bonus payments that participants receive are includable as income in the year in which they are paid.

VIII. ***INTEGRATION WITH BENEFIT PROGRAMS***

Any bonus payment that a participant receives is not intended to be considered compensation for purposes of life assurance, 401(k) or any other pension scheme, disability, holiday pay or any other benefit plan unless specified by the applicable plan document.

IX. ***CONDITIONS FOR RECEIVING PAYMENT***

An individual whose employment is terminated for any reason, or who is under notice of termination (whether given by the individual or the Company) in both cases prior to the date on which bonus would otherwise be paid will not be eligible to receive a bonus payment (e.g., a participant on garden leave on the date of payment will not be eligible for a bonus). However, the Company retains the authority in its absolute discretion to make exceptions to the foregoing policy in unusual or meritorious cases including, but not limited to, approving a prorated bonus in the event of an employee's death, disability, call to active military service, or retirement with the written consent of the Company.

X. ***CLAWBACK***

By accepting a bonus payment under the Plan, each participant agrees that the Company may recover some or all of the amounts paid with respect to such bonus payment, or recoup some or all of the value thereof via offset from other amounts owed to the employee by the Company or an affiliate, at any time in the three year fiscal years following payment hereunder, if and to the extent that the Committee concludes that (i) U.S. federal or state law, the laws of any other jurisdiction in which the participant has been employed by the Company during the fiscal year, or the listing requirements of the exchange on which the Company's stock is listed for trading so require, (ii) the performance criteria required for the bonus payment were not met, or not met to the extent necessary to support the amount of the bonus payment that was paid, or (iii) as required by Section 304 of the U.S. Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or otherwise after a restatement of the Company's financial results as reported to the U.S. Securities and Exchange Commission. Participants are deemed to have agreed to promptly comply with any Company demand for recovery or recoupment by accepting any payment hereunder.

XI. ***LIMITATIONS AND/OR ADJUSTMENTS***

The Company reserves the right to review, amend, suspend, withdraw and/or terminate the Plan, the incentive calculation formulas, performance targets and all other aspects of the Plan at any time and in its sole and absolute discretion and without prior notice.

An employee's participation in the Plan shall not be construed as a contractual right or form part of his or her contractual remuneration under an employment contract nor shall it be construed as a promise of continuing employment between the Company and the employee. Any bonus payment made in respect of 2019 are not indicative of any payments that may be made in subsequent fiscal years. Employment with the Company is terminable at will subject to the terms of any written services or employment agreement between the Company and the employee and applicable laws. Neither an employee's employment with the Company, nor an employee's employment within any particular category of employees, shall entitle the employee to either participate in the Plan or to be eligible to receive any bonus pursuant thereto. All determinations of eligibility shall be made by the Compensation Committee in its absolute discretion and may be revised or adjusted in accordance with the Plan.

**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: May 10, 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: May 10, 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 March 31, 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: May 10, 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 March 31, 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: May 10, 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.