

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended September 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 001-36689

**INSPIRED ENTERTAINMENT, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

47-1025534

(I.R.S. Employer  
Identification Number)

250 West 57th Street, Suite 2223  
New York, New York 10107  
(646) 565-3861

(Address, including zip code, of principal executive offices  
and telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.0001 per share	The Nasdaq Stock Market LLC
Series A Junior Participating Preferred Stock	

**Securities registered under Section 12(g) of the Exchange Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer   
Non-accelerated filer

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 126-2 of the act): Yes  No

The aggregate market value of the registrant's common stock, other than shares held by persons who may be deemed to be affiliates of the registrant, computed by reference to the closing sales price for the registrant's common stock on March 31, 2018, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the Nasdaq Capital Market, was approximately \$38.4 million. For the purpose of this disclosure, executive officers, directors and holders of 10% or more of the registrant's common stock are considered to be affiliates of the registrant.

As of November 30, 2018, there were 21,484,707 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement relating to the 2019 annual meeting of stockholders are incorporated by reference in Part III. The proxy statement will be filed with the Securities and Exchange Commission no later than 120 days after the conclusion of the registrant's fiscal year ended September 30, 2018. If such proxy statement is not filed on or before January 28, 2019, the information called for by Part III will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and other information set forth in this report, including in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere herein, may relate to future events and expectations, and as such constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). Our forward-looking statements include, but are not limited to, statements regarding our business strategy, plans and objectives and our expected or contemplated future operations, results, financial condition, beliefs and intentions. In addition, any statements that refer to projections, forecasts or other characterizations or predictions of future events or circumstances, including any underlying assumptions on which such statements are expressly or implicitly based, are forward-looking statements. The words “anticipate”, “believe”, “continue”, “can”, “could”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “possible”, “potential”, “predict”, “project”, “scheduled”, “seek”, “should”, “would” and similar expressions, among others, and negatives expressions including such words, may identify forward-looking statements.

Our forward-looking statements reflect our current expectations about our future results, performance, liquidity, financial condition, prospects and opportunities, and are based upon information currently available to us, our interpretation of what we believe to be significant factors affecting our business and many assumptions regarding future events. Actual results, performance, liquidity, financial condition, prospects and opportunities could differ materially from those expressed in, or implied by, our forward-looking statements. This could occur as a result of various risks and uncertainties, including the following:

- 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;
- our ability to protect our business against cybersecurity threats;
- government regulation of our industries;
- the determination by the UK Government, announced in October 2018, to reduce maximum permitted bets on B2 gaming machines in the UK to £2 effective April 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.

In light of these risks and uncertainties, and others discussed in this report, there can be no assurance that any matters covered by our forward-looking statements will develop as predicted, expected or implied. Readers should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason. We advise you to carefully review the reports and documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”).

## PART I

### ITEM 1. BUSINESS.

#### Overview

We are a global business-to-business gaming technology company, supplying Virtual Sports (which includes Interactive, comprising the offering of our SBG and Virtual Sports content via our remote gaming server) and Server Based Gaming (“SBG”) products 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 applications.

Our Virtual Sports business designs, develops, markets and distributes ultra-high-definition games that create an always-on sports wagering experience. We believe we have a strong position in the supply of Virtual Sports gaming products, with a wide product offering available. As of September 30, 2018, our Virtual Sports products were available in more than 35,000 retail channels and on more than 300 websites. Our products are installed in over 35 gaming jurisdictions worldwide, including the UK, Italy, Greece and the U.S.

Our SBG business designs, develops, markets and distributes a broad portfolio of more traditional games through our digital network architecture. Our SBG products are offered through approximately 33,000 digital terminals in gaming and lottery venues around the world, with approximately 2,900 additional terminals contracted for deployment.

Our Virtual Sports products are typically offered to operators on a participation basis, whereby we receive a portion of the gaming revenues generated, plus an upfront software license fee. Our SBG products are typically offered directly to land-based and online casino gaming operators, either: (i) through product sales or (ii) on a participation basis. Because our SBG products are fully digital, they can interact with a central server and are provided on a “distributed” basis, which allows us to realize a number of benefits, including that we are able to access a wider geographic footprint through the internet and proprietary networks. We offer SBG products that are compliant with all requirements in the UK (B2/B3), Italy (6B) and Greece (G2S).

Our customer base includes regulated operators of lotteries, licensed sports bookmakers, gaming and bingo halls, casinos and regulated online operators. Some of our key customers include William Hill, SNAI, Sisal, Lottomatica, Betfred, Paddy Power Betfair, Genting, Bet365, Sky Bet, Fortuna, the Greek Organisation of Football Prognostics S.A. (OPAP S.A.), GVC Holdings Plc (including Ladbrokes Coral) and the Pennsylvania Lottery. Geographically, more than half of our revenues are derived from, and more than half of our non-current assets (excluding goodwill, which is not allocated by region) 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.

Unlike traditional suppliers to the gaming industry, we do not supply traditional slot machines or casino systems. All of our products are provided through multiple channels over a digital network. All of our products are designed to operate within applicable gaming and lottery regulations and all of our customers are regulated gaming or lottery operators.

We operate in a highly regulated industry. We and our products, as applicable, are licensed, authorized or certified, as applicable, in a number of major gaming and lottery jurisdictions. Our key licenses, authorizations and certifications include those from the Gambling Commission of Great Britain, the Italian gaming authorities and the Greek gaming authorities, as well as the Licensing Authority of Gibraltar, the Alderney Gambling Control Commission, the Belgian Commission, Autorité Des Marchés Financiers (Quebec), State of Oregon’s Division of Gaming Enforcement and the State of New Jersey’s Division of Gaming Enforcement. We are a member of key industry associations, including the Gaming Standards Association, the World Lottery Association and the Association of Gaming Equipment Manufacturers.

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. We intend to file a transition report on Form 10-Q, covering the transition period of October 1, 2018 to December 31, 2018, following the conclusion of that transition period.

#### Our Products

We operate our business in two business segments – Virtual Sports (which includes Interactive) and Server Based Gaming – representing our different products and services. Our Interactive business comprises the offering of our SBG and Virtual Sports content via our remote gaming server. Our products in both the Virtual Sports and Server Based Gaming categories both offer innovative games, available through a variety of distribution channels, including digital SBG terminals, mobile gaming products, computer and online gaming products and services and electronic table games (“ETG”). We believe our omni-channel distribution is an important differentiator of our products in the market, allowing us to update our game and operating software remotely and keep pace with fast-evolving requirements in game play, security, technology and regulations.

Virtual Sports offers ultra-high-definition games that create an always-on sports wagering experience, while SBG offers more traditional casino games such as slots, roulette and other table games. Our Virtual Sports game portfolio includes branded titles such as Rush Football 2<sup>®</sup>, Matchday, 1<sup>st</sup> Down, Virtual Grand National, Rush Boxing<sup>®</sup> featuring Mike Tyson, as well as greyhounds other horse racing products, tennis, motor racing, cricket, speedway, golf and darts. We offer a comprehensive array of sports titles in Virtual Sports.

Our SBG game portfolio includes a broad selection of leading omni-channel slots titles including the Centurion™, game family and Super Hot Fruits™ featuring Sizzling Hot spins game family. These games offer customers a wide range of volatilities, return-to-player and other special features. We also offer a range of more traditional casino games through its SBG network, such as roulette, blackjack and numbers games.

### ***Virtual Sports***

We believe we are one of the leading suppliers of Virtual Sports gaming products in the world. We offer a wide range of sports and numbers games to more than 40,000 retail channels and more than 100 websites. Our customers are many of the largest operators in lottery, gaming and betting worldwide. We also supply Virtual Sports and other digital games to mobile and online operators in the UK, the U.S. states of Nevada and New Jersey, Gibraltar and other regulated, EU markets, including Italy, Greece and Denmark. Virtual Sports can be adapted to function in sports betting, lottery, or gaming environments and is therefore available to a wide range of customers in both public and private implementations.

Our Virtual Sports product comprises a complex software and networking package that provides fixed odds wagering on an ultra-high definition computer rendering of a simulated sporting event, such as soccer or boxing. Players can bet on the simulated sporting event, in both a streaming and on-demand environment, overcoming the relative infrequency of live sporting events. We have developed this product using an award-winning TV and film graphics team with advanced motion capture techniques.

In addition to soccer and boxing, our virtual sports products also include tennis, speedway (track motorcycle racing), motorcar racing (single seater style and stock cars), velodrome cycle racing, greyhound and horse racing, basketball, boxing, darts and cricket, as well as various lottery ball draw and other numbers games. We have also licensed the use of images of certain sports figures in our games, including boxer Mike Tyson. We also entered into a partnership with CARM productions and Aintree Race Course to create the second Virtual Grand National, which aired on live UK television and successfully predicted the 2018 winner Tiger Roll.

Our customers together offer Virtual Sports events to millions of their customers, through land-based, online and mobile platforms, many of them available 24 hours per day, 7 days per week, and often concurrently within the same location. We have launched a remote game server Virtual Sports product, which enables the provision of on-demand Virtual Sports events alongside the scheduled events Virtual Sports events that have so far predominated in our product offerings.

In addition to on-demand Virtual Sports, our Virgo RGS™ offers a wide range of premium slots from feature-rich bonus games to European-style casino free spins, and table games incorporating well-known first and third-party brands including 20p Roulette and Mike Tyson Blackjack. Inspired releases several new titles per month and new games can be seamlessly deployed to the full estate of operators via its Virgo RGS™. Inspired's Virgo RGS™ is integrated with a number of leading casino brands, including William Hill, Ladbrokes Coral, Bet365, Bwin, Paddy Power, Betfair, Sky Bingo, Bet Victor, Rank, Leo Vegas, Mr Green and Aspire Global.

### ***Server Based Gaming (SBG)***

We supply SBG products, offering games through approximately 33,000 digital terminals in gaming and lottery venues around the world, with approximately 2,900 additional terminals contracted for deployment. Because our SBG products are fully digital, they can interact with a central server and are provided on a "distributed" basis, which allows us to realize a number of benefits, including that we are able to access a wider geographic footprint through the internet and proprietary networks. We offer SBG products that are compliant with all requirements in the UK (B2/B3), Italy ('6B) and Greece (G2S).

We have a strong market position in the UK, where our SBG terminals account for a material portion of all SBG terminal placements and we offer over 100 games. We are also a material player in Italy and Greece. We offer SBG terminals such as the Flex4k curved screen, Eclipse, Inceptor, Optimus and Blaze, each offering a different size terminal, graphics, technology and price proposition.

We distribute games to devices via different Game Management Systems ("GMSs"), each tailored to a specific operator and market type. Our CORE™ system is designed for distributed street-gaming markets and uses Inspired or third-party cabinets in combination with *Inspired Inside*, and gaming content from a wide portfolio of independent game developers. CORE-CONNECT is our American Gaming Association G2S standard-based Video Lottery Terminal ("VLT") platform, currently deployed in the Greek VLT market. CORE EDGE™ is the next iteration of our GMSs, and uses our Virgo remote gaming server ("RGS"), which is also used to power our web-based and mobile content delivery platform. This system, and the HTML5-based games that are deployed on it, mean that we can offer a genuine omni-channel game experience.

## **Our Strategy**

We are focused on executing on key strategies to achieve long-term growth in revenues, profit and cash flow. We achieve our targets by delivering innovative and differentiated products that provide value to our customers and exciting experiences to their players in multiple jurisdictions throughout the world. We place great emphasis on developing creative solutions, in terms of game content and play, that deliver and sustain superior performance for networked, distributed, omni-channel gaming. This omni-channel strategy allows us to update our games and operating software remotely, keeping pace with evolving requirements in game play, security, technology and regulations.

Our key strategic priorities are as follows:

### ***Extend our strong positions in each of Virtual Sports and Server Based Gaming by developing new omni-channel products.***

We continually invest in new product development in each of our Virtual Sports and Server Based Gaming business segments. We believe these investments benefit our existing and new customers by making new products and services available to them and bringing exciting entertainment experiences to their players. Our digital approach, which connects our content to a wide range of devices and is compatible with a wide range of protocols and regulatory standards, is a differentiator in our industry and creates a significant competitive advantage for us. We have continued to focus on channels where we believe there is considerable growth available – especially mobile, where we can deploy our RGS products. We believe our technological approach allows us to quickly adapt to changes in player preferences.

### ***Continue to invest in games and technology in order to grow our existing customers' revenues.***

Over the last three years, a substantial portion of our annual revenue has been recurring and based on long-term contracts with customers. These contracts are in the participation-based portion of our business, where our revenues typically grow in line with the growth of our customers' gaming revenues from our products. We work closely with our customers to assist in the optimization of their terminal operations so they can achieve growth in revenues, which we believe is to our benefit. Accordingly, we continually invest in new game and technology offerings that we believe will enable our customers to keep their offerings fresh and allow them to offer their players new forms of entertainment. In some instances, we must develop new software and content to comply with new regulatory requirements and try to mitigate the impact. We believe our game development is a key aspect of our strategy. We intend to continue this strategic priority in both our Virtual Sports and Server Based Gaming businesses.

### ***Add new customers by expanding into underpenetrated markets while further penetrating existing markets.***

We believe that our historical growth has been driven by our entry into new geographies as well as increasing our share in existing markets, and we expect such expansion to continue. We also intend to seek opportunities to enter new product markets where we believe that we may enjoy competitive advantages. We believe North America is a major gaming market in which we currently have limited participation, but where our products are well positioned, or can be positioned, for future success. For example, we have recently commenced the placement of our products in North America with the Pennsylvania Lottery and have signed contracts with internet gaming platform providers for the placement of our products in New Jersey. We are also leveraging our technology and experience in Greece, where we are compliant with the Game to System (G2S) protocol, to create differentiated products for the North American distributed gaming market.

### ***Pursue targeted mergers and acquisitions to expand our product portfolio and distribution footprint.***

In addition to growing our business organically, we continue to pursue merger and acquisition opportunities that will help strengthen and scale our operations and take further advantage of our competitive position in digital gaming. Our management team shares a combination of operating, investing, financial and transactional experience that we believe will serve the Company well as it seeks to identify opportunities for value-adding acquisitions and negotiate and close on beneficial acquisition transactions.

## **Our Competitive Strengths**

We intend to execute our strategy by leveraging the following competitive strengths:

### ***Significant Base of Operations with Recurring Revenue from Long-Term Relationships***

Over the last three years, a substantial portion of our annual revenue has been recurring and based on long-term contracts with customers. Our customers include major blue-chip lottery, sports betting and gaming operators (both land-based and online) within the regulated UK and European markets. Many of our customer relationships are long-standing and in excess of 10 years.

### ***Strong Position in Virtual Sports***

Our Virtual Sports products currently generate over \$10 billion in player wagers per year. Inspired's award-winning Virtual Sports products offer a wide range of betting markets and what we consider to be superior graphics. Our Virtual Sports revenue is fast growing and high margin, and complements our recurring-revenue base, which is itself growing.

## ***History of Strong Content Development***

We deploy over 100 new games, variants and 3rd party titles per year across our GMSs and RGS systems. Many of our recent game launches, including Maximus Payus™, Maid Marian™, and Super Hot Fruits™ (a consistent top performer in the Greek market) have been omni-channel, offering a premium player experience across multiple platforms.

## ***Omni-Channel Digital Gaming Platform***

Our proprietary digital gaming platform has been developed internally by development teams based in the UK and the EU. We offer SBG products that are compliant with all requirements in the UK (B2/B3), Italy ('6B) and Greece (G2S) technical regulations. Our 100% digital, omni-channel platform is able to deliver our content and user experience to devices ranging from SBG terminals to mobile devices.

## ***Experienced Management Team***

Our seasoned management team is led by our Executive Chairman Lorne Weil, who is known as a gaming industry innovator and whose past leadership includes growing a diversified global gaming technology company both organically and through extensive acquisitions and joint ventures further bolstering the business. In May 2018, we formed the Office of the Executive Chairman, which consists of our Executive Chairman; our President and Chief Operating Officer Brooks H. Pierce; our Executive Vice President and Chief Strategy Officer Daniel B. Silvers; and our Executive Vice President and Chief Financial Officer Stewart F.B. Baker. The Office of the Executive Chairman executes the day-to-day management of the Company. Our management team has broad and deep experience in the gaming industry, working with lotteries, casino operators, betting platforms, and online operators. Mr. Weil and Mr. Pierce have over 50 years of experience in the gaming industry between them and relationships with customers around the world, helping them build and sustain revenue growth. In addition, both Mr. Weil and Mr. Silvers have centered their careers on identifying and implementing value creation initiatives, often through acquisitions or other transactional means, and Mr. Pierce, Mr. Baker and other members of our management team are experienced with the acquisition and integration of businesses. Mr. Baker has institutional knowledge at Inspired and in-depth financial expertise.

## ***Industry Overview***

We operate within the global gaming and lottery industry. Global gaming and lottery growth has been resilient in the face of economic cycles over the last decade. According to H2 Gambling Capital, the industry has grown at a 2.7% compounded annual growth rate from 2007 to 2017, driven by increased consumer spend and the introduction of new regulated markets.

During this period, digital online and mobile gaming and lottery have grown at a faster pace. According to H2 Gambling Capital, this portion of the industry has grown at a 10.6% compound annual growth rate, driven by rapid growth in the deployment of digital games and technologies, such as Virtual Sports and digital SBG terminals, into land-based venues in the primary markets in which we operate, where regulators have supported the transition to digital, online and retail channels.

We believe that the overall global gaming and lottery industry will continue to grow, with more robust growth in the digital gaming and lottery markets. We believe the industry is content driven and, much like music, videogames and motion pictures, will continue to be transformed by the propagation of digitally-networked technologies.

As a gaming and lottery business-to-business supplier focused on digital products and technologies, we believe we are well-positioned to benefit from these trends.

## ***Influencers of Digital Adoption***

We believe the digital segment of the global gaming and lottery industry will continue to grow, including as a result of the following factors:

*Governments: Opening of new gaming territories.* Many national and state governments operating in developed economies in Europe and the United States are suffering from structural funding deficits. The regulation and liberalization of gaming and lottery is frequently relied upon to raise new sources of revenue for these governments. In most cases, we believe such liberalization does not favor buildouts of large new destination resort casinos, but rather focuses on smaller “edge” venues with lottery, gaming and sports betting, combined with online or mobile gaming.

*Digital Multi-Channel Offerings: Replacement of legacy analogue machines with larger volume of smart digital devices, including retail and mobile.* In many established markets, as existing gaming terminals mature, governments and regulatory authorities have implemented regulations to upgrade the established terminal base to digital operation.

*Smartphones and Mobile Devices: Rapid adoption of gaming and lottery applications on growing volume.* In certain markets, mobile play on sports betting and gaming now exceeds such play on personal computers. According to H2 Gambling Capital, mobile gaming revenues in such markets exhibited a 55% compounded annual growth rate between 2008 and 2017. Mobile gaming and lottery is now expanding in other markets, and mobile play has recently been approved in other markets for gaming or lottery.

In addition to the foregoing, we believe there are significant benefits for SBG operators in the adoption of digitally networked gaming and lottery. SBG allows operators to remotely manage their operations with minimal disruption to their businesses. The system centralization enabled by digital operations offers flexibility to rotate or change games, tailor game availability to time-of-day, target specific player demographics and take advantage of seasonal and themed marketing opportunities. New games can be phased in without the revenue dip often associated with replacing games on traditional slot machines. In addition, digital operations permit more games per terminal, enabling operators to test new games and new suppliers, seek to appeal to a broader base of players with minimal cost or risk, commission games from third-party suppliers on an open game interface and reduce procurement risk. Moreover, digital operations significantly reduce the need for on-site repairs, improve terminal up-time and should extend terminal life cycles as well as the time period over which capital costs can be depreciated.



## Regulatory Framework

We conduct business in a number of different jurisdictions, of which Great Britain and Italy have historically contributed the most significant recurring revenues. The gaming regulator responsible for our activities in Great Britain is the Gambling Commission of Great Britain (the “UK Gambling Commission” or the “Gambling Commission”). In Italy, the operation of gaming machines and remote gaming is regulated by L’Agenzia delle dogane e dei Monopoli (“ADM”). In addition, we are licensed or certified (as applicable) by the Greek gaming authorities and in a number of other jurisdictions by regulators such as the Licensing Authority of Gibraltar, the Alderney Gambling Control Commission, the Belgian Commission, Autorité Des Marchés Financiers (Quebec), State of Oregon’s Division of Gaming Enforcement and the State of New Jersey’s Division of Gaming Enforcement.

### *Great Britain*

In the British market, we supply and distribute Category B2 gaming machines (also known as Fixed-Odd Betting Terminals, or FOBTs, with maximum betting stakes for players of £100), B3 gaming machines (with maximum betting stakes for players of £2) and ETG machines to third parties who are licensed to operate such machines in bricks-and-mortar premises. B2 gaming machines can include B3 content on them. We also supply virtual racing software to local retail venues and to online operators who are licensed to target the British market. We also supply our Interactive product to remote operators who are licensed to target the British market. The provision of our products and services in relation to the British market is authorized by a series of licenses issued by the UK Gambling Commission, namely remote and non-remote Gaming Machine Technical (Full) operating licenses, a remote casino operating license, a remote and non-remote gambling software license and a remote general betting standard (virtual events) license.

On November 14, 2018, the UK Government confirmed that the implementation of the £2 maximum bet for B2 content would come into effect as of April 1, 2019.

***British Betting and Gaming Laws and Regulations.*** The Gambling Act 2005 (the “GA05”) is the principal legislation in Great Britain governing gambling (other than in relation to the National Lottery, which is governed by separate legislation). The GA05 applies to both land-based gambling (referred to as “non-remote” gambling) and online and mobile gambling (referred to as “remote” gambling).

The GA05 provides that it is an offense to make a gaming machine available for use without an appropriate operating license. There are a number of different categories of licensable gaming machines (the GA05 provides for category A to D machines, although no category A machines are currently in operation); each category is subject to different levels of maximum stakes and prize limits. In addition, there are limits on the numbers and types of gaming machines that can be operated from licensed premises: for example, a licensed betting office is permitted to house up to four category B2 to D machines, while a large casino may house up to 150 category B to D machines (subject to satisfying certain ratios of machines to gaming tables).

Gaming machine suppliers are required to hold an operating license in order to manufacture, supply, install, adapt, maintain or repair a gaming machine or part of a gaming machine. Gaming machine suppliers must also comply with the Gaming Machine Technical Standards published by the Gambling Commission in relation to each category of machine, and such machines must meet the appropriate testing requirements.

In relation to remote gambling, the GA05 (as amended by the Gambling (Licensing and Advertising) Act 2014) provides that it is an offense to “provide facilities” for remote gambling either (a) using “remote gambling equipment” situated in Great Britain, or (b) which are used by players situated in Great Britain, in each case without a remote gambling operating license. It is also an offense to manufacture, supply, install or adapt gambling software in Great Britain without an appropriate gambling software license.

A remote gambling operating license holder providing facilities for remote gambling to British players is required to use gambling software manufactured and supplied by the holder of a gambling software license (and to failure to do so is an offence). Where gambling software is used or supplied for use in relation to the British market, it must satisfy the Remote Gambling and Software Technical Standards published by the Gambling Commission.

The holder of a British gambling operating license is subject to a variety of ongoing regulatory requirements, including but not limited to the following:

- Shareholder disclosure: An entity holding a gambling license must notify the Gambling Commission of the identity of any shareholder holding 3% or more of the equity or voting rights in the entity (whether held or controlled either directly or indirectly).

- **Change of corporate control:** Whenever a new person becomes a “controller” (as defined in section 422 of the Financial Services and Markets Act 2000) of a company limited by shares that holds a gambling operating license, the licensed entity must apply to the Gambling Commission for permission to continue to rely on its operating license in light of the new controller. A new controller includes any person who holds or controls (directly or indirectly, including ultimate beneficial owners who hold their interest through a chain of ownership) 10% or more of the equity or voting rights in the licensed entity (or who is otherwise able to exercise “significant influence” over it). The Gambling Commission must be supplied with specified information regarding the new controller (which, in the case of an individual, includes detailed personal disclosure) and this information will be reviewed by the Gambling Commission to assess the suitability of the new controller to be associated with a licensed entity. If the Gambling Commission concludes that it would not have issued the operating license to the licensed entity had the new controller been a controller when the application for the operating license was made, the Gambling Commission is required to revoke the operating license. It is possible to apply for approval in advance from the Gambling Commission prior to becoming a new controller of a licensed entity.
- **Compliance with the License Conditions and Codes of Practice (LCCP):** The LCCP is a suite of license conditions and code provisions which attach to operating licenses issued by the Gambling Commission. The provision of gambling facilities in breach of a license condition is an offense under the GA05. Certain specified “Social Responsibility” code provisions are accorded the same weight as license conditions in this regard (whereas breach of an “ordinary” code provision is not an offense in itself, but may be evidence of unsuitability to continue to hold a gambling license). The LCCP imposes numerous operational requirements on licensees, including compliance with the Gambling Commission’s Remote Gambling and Software Technical Standards, segregation of customer funds, the implementation of a variety of social responsibility tools (such as self-exclusion), anti-money laundering measures, age verification of customers and a host of consumer protection measures. The Gambling Commission regularly reviews and revises the LCCP.
- **Regulatory returns and reporting of key events:** The LCCP requires licensees to submit quarterly returns to the Gambling Commission detailing prescribed operational data. Licensees are also required to notify the Gambling Commission as soon as practicable and in any event within 5 working days of becoming aware of the occurrence of certain specified “key events” which, in summary, are events which could have a significant impact on the nature or structure of the licensee’s business. Licensees are also required to notify suspicion of offenses and suspicious gambling activity.
- **Personal licenses:** Key management personnel are required to maintain personal licenses authorizing them to discharge certain responsibilities on behalf of the operator. These personal licenses are subject to renewal every five years. Personal licenses are subject to compliance with certain license conditions.

## **Italy**

We operate two different gaming businesses in Italy. We supply video lottery terminals (“VLTs”), including the terminal machines themselves, the related online platforms and the games available on the machines, to brick-and-mortar gaming halls. We also supply Virtual Sports products, including online platforms and games, to betting shops and online platforms. Our businesses are operated through the Italian branches of certain of our UK subsidiaries. These branches hold police licenses and are enrolled in the Register of Gestori, as further described below. We supply our Italian VLTs and Virtual Sports products only to operators licensed under Italian gaming laws and regulations.

Our VLT and Virtual Sports platforms must be connected over the internet to servers operated by the ADM. Information regarding gaming sessions and the amounts wagered and won is provided in real time through the ADM servers, in order to enable the ADM to monitor the operation of machines and games and to verify the amount of taxes due.

**Italian Betting and Gaming Laws and Regulations.** Operators of betting premises offering VLTs (including the entities managing the networks connecting such VLTs to ADM servers), and operators of betting premises or online platforms offering Virtual Sports products, must hold an Italian gaming license. No gaming license is required in order to supply VLTs or Virtual Sports products to such operators. Such VLT platforms, machines and games, and Virtual Sports platforms and games, must be certified and approved by SOGEL, an entity authorized to conduct such certifications, and approved by the Italian Ministry of Finance. Such certifications and approvals must be obtained by such operators, rather than the suppliers of such VLT platforms, machines and games, and Virtual Sports platforms and games.

Suppliers of gaming machines, including VLTs, must hold a police license (as prescribed by article 86, paragraph 3, of the Italian United Text of Public Security Law (TULPS) provided by the Royal Decree 18 June 1931, No. 773) and be enrolled in a registry prescribed by article 1, paragraph 82 of Law No. 220/2010 (known as the “Register of Gestori”). If a supplier of gaming machines is not enrolled in the Register of Gestori, any agreement it enters into regarding the supply of gaming machines is null and void. In addition, if the enrollment is not renewed, existing agreements regarding the supply of gaming machines become null and void. Enrollment in the Register of Gestori is subject to, among other things, a review of the suitability of the applicant business entity and its directors. In the event of a change of control of the entity enrolled in the Register of Gestori (but not of such entity’s direct or indirect parent entities), the details of such change must be notified to the ADM and suitability must be reconfirmed.

Suppliers of Virtual Sports products are not required to hold a police license, be enrolled in the Register of Gestori or otherwise be licensed or registered.

ADM Decree No. 37100, dated April 4, 2017, requires that VLT platforms, machines and games undergo a substantial technical upgrade by April 1, 2019. In absence of such an upgrade, a VLT supplier would be in breach of any agreements with its operators to remain in compliance with Italian gaming laws and regulations, and its platforms and machines would no longer be authorized to offer games and we are working towards compliance of this.

## **Greece**

In Greece, we supply VLTs, including the terminal machines themselves, the related online platforms and the games available on the machines, to brick-and-mortar gaming locations operated by OPAP, the country's sole licensed operator of gaming machines. We supply such VLTs under a certification provided by the Hellenic Gaming Commission (the "HGC"). We also supply Virtual Sports products within retail venues operated by OPAP and via self-service betting terminals within OPAP venues.

**Greek Betting and Gaming Laws and Regulations.** According to articles 25(b) and 44 par. 2 of Law 4002/2011 as in force, as well as according to HGC's Decision No 225/2/25.10.2016, all suppliers of gaming machines in Greece must be certified by the HGC in order to legally supply, sell, lease, offer or distribute any VLT or virtual game or any other game of chance (i.e. games including wagers or bets and the result of which games depends, even partly, on the influence of luck). Suppliers are divided into two types, manufacturers and importers/distributors (according to articles 47 and 48 of the aforementioned HGC's Decision). In order for a manufacturer to receive certification, it must satisfy the HGC as to its corporate and financial status and must not have been denied a gaming license or certification in any other country. In order for an importer/distributor to receive certification, it must satisfy the HGC as to its corporate and financial status, must not have been denied a gaming license or certification in any other country and must have the approval of the manufacturer to supply its products in the Greek market.

## **Gaming Regulation and Changes in Ownership**

In all of the jurisdictions in which we are subject to gaming regulations, regulators require us to keep them informed as to our ownership structure and composition and, to varying extents and in various circumstances, require us to disclose certain information regarding the persons who directly or indirectly hold our shares. Depending on the regulator, we may need to provide such information not only when we first seek licenses or certifications, but also when material changes (measured at different levels) occur in the ownership of our shares. As a result, material changes in our shareholdings may be subject to special procedures in order to ensure the continuation of our gaming licenses and certifications.

## **Content Development**

We continually invest in new product development in each of our Virtual Sports and Server Based Gaming business segments. Inspired has a full stack game development structure, combining its own leading technology frameworks together with some of the industry's best math, art, creative and production personnel, along with a select few external development teams to deliver the best in omni-channel mobile and VLT games. We deploy over 100 new games, variants and 3<sup>rd</sup> party titles per year across our GMSs and RGS systems. Many of our recent game launches, including Maximus Payus™, Maid Marian™, and Super Hot Fruits™ (a consistent top performer in the Greek market) have been omni-channel, offering a premium player experience across multiple platforms. In Virtual Sports we combine graphical assets and software that controls those assets to schedule events and generate results via a random number generator, as well as supplying on demand versions of our content. We account for our development costs as software development costs and these are typically amortized over a two-year period.

## **Suppliers**

Our principal supply arrangements concern the supply of our SBG terminal components, content provision and outsourced labor. We work closely with our key suppliers to ensure a high level of quality of goods and services is obtained and have worked with many of these suppliers for many years. We have achieved significant cost savings through centralization of purchases.

## **Customers**

Our customer base includes regulated operators of lotteries, licensed sports bookmakers, gaming and bingo halls, casinos and regulated online operators. Some of our key customers include William Hill, SNAI, Sisal, Lottomatica, Betfred, Paddy Power Betfair, Genting, Bet365, Sky Bet, Fortuna, OPAP S.A., GVC Holdings Plc (including Ladbrokes Coral) and the Pennsylvania Lottery. We typically implement design and content variations to customize their terminals and player experiences. Our license agreements with customers for the provision of SBG content and Virtual Sports products include provisions to protect our intellectual property rights in our games and other content.

## **Operations and Employees**

Our operations include game production, platform and hardware design, production, testing, and distribution; the maintenance, management, and extension of our centralized network for product distribution and product monitoring; the delivery and, in certain circumstances, maintenance of SBG terminals; gaming machine engineering, assembly, repair and storage; parts supply; change and release management; remote operational services; problem management; business development; market account management; and general administration and management, including Finance, Legal, People (Human Resources), Investor Relations, Marketing and Communications, Quality, Compliance and Information Security.

We have approximately 670 employees, 640 of which are full-time employees. Over 250 of our employees and 70 personnel located with partners are dedicated to delivering our SBG and digital platforms. Approximately 75 of our employees are assigned to the ongoing operation of our network, through which we supply and maintain our products. Approximately 130 of our employees are involved in UK field operations. Our management, sales and administration teams account for approximately 60 employees.

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, which is continuing, the Company expects, among other things, 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. It is anticipated that the relocation, consolidation and headcount reduction will be implemented on an ongoing basis and be completed on or before the end of calendar year 2019. Given the uncertainties relating to the outcome of these efforts and a number of related matters that remain unresolved, the Company is currently unable to accurately estimate the exit-related costs that may arise in connection with the reduction in force.

### **Intellectual Property**

Our intellectual property consists principally of the propriety software we develop to operate our network and in the design and distribution of our games. We depend upon agreements relating to trade secrets and proprietary know-how to protect our rights in this intellectual property. We require all our employees, contractors and other collaborators to enter into agreements that prohibit the disclosure of our confidential information to other parties. In addition, it is our policy to require our employees, contractors and other collaborators who have access to proprietary and trade secret material to enter into agreements that require them to assign any and all intellectual property rights to us that arise as a result of their work on our behalf. We also require our employees to review and acknowledge our trade secret policies regarding how we handle trade secrets. These agreements, acknowledgements and policies may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure in violation of these agreements, and may not be sufficient to secure for us the value in such developments that they are designed to secure.

We also hold certain patents, trademarks, design rights and other intellectual property rights in respect of our products, systems, web domains, and other intellectual property. We also rely on certain products and technologies that we license from third parties. Proprietary licenses typically limit our use of intellectual property to specific uses and for specific time periods.

### **Competition**

We operate in a highly competitive industry, and in highly competitive business segments. We face competition from a number of worldwide businesses, many of which have substantially greater financial resources and operating scale than we do. Such competition could adversely affect our ability to win new contracts and sales and renew existing contracts. We operate in a period of intense price-based competition in some key markets, which could affect the profitability of the contracts and sales we do win. In certain markets, our businesses also face competition from suppliers, operators or licensees who offer products for internet gaming in illegal or unregulated markets, but are still able or permitted to supply products and compete with us in regulated markets. These competitors often have substantially greater financial resources and operating scale than we do. Our principal competitors include, among others, certain businesses that have vertically integrated gaming machine and retail betting operations and businesses that operate in both regulated and unregulated markets and thereby effectively subsidize their regulated operations with unregulated operations.

### **Seasonality**

Our revenues are subject to a number of variations. Equipment sales and software license revenues usually reflect a limited number of large transactions, which may not recur on an annual basis. Consequently, revenues and operating results can vary substantially from period to period as a result of the timing of equipment sales and software licensing. In addition, revenues may vary depending on the timing of contract awards and renewals, changes in customer budgets and general economic conditions. However, our revenues are not subject to regular seasonal variations of the sort often related to seasonal consumer behavior, except that in Italy and Greece we experience reductions in revenue in the summer and in the UK, Italy and Greece we experience increases in revenue around customers' pay dates.

## ITEM 1A. RISK FACTORS.

*Our business is subject to a high degree of risk. You should carefully read and assess our discussion of the risk factors facing our business, below. Any of these risks could materially and adversely affect our business, operating results, financial condition and prospects, and cause the value of our common stock to decline, which could cause investors in our common stock to lose all or part of their investments.*

### **Risks Relating to Our Business and Industry**

**We operate in a highly competitive industry and our success depends upon our ability to effectively compete with numerous worldwide businesses.**

We face competition from a number of businesses, including worldwide businesses, many of which have substantially greater financial resources and operating scale than we do. Such competition could adversely affect our ability to win new contracts and sales and renew existing contracts. We operate in a period of intense price-based competition in some key markets, which could affect the profitability of the contracts and sales we do win.

In certain markets, our businesses also face competition from suppliers, operators or licensees who offer products for internet gaming in illegal or unregulated markets, but are still able or permitted to supply products and compete with us in regulated markets. These competitors often have substantially greater financial resources and operating scale than we do.

If we cannot successfully compete in our industry and business segments, our business, results, financial condition and prospects could suffer.

**We are heavily dependent on our ability to renew our long-term contracts with our customers and we could lose substantial revenue if we are unable to renew certain of these contracts.**

Generally, our Virtual Sports contracts are for initial terms of three to five years, but longer in certain territories, with renewals at the customer's option. Generally, our SBG terminal contracts are for terms of four to six years (although in certain cases they are longer), but certain customers have options for early termination under certain circumstances, and we may face pressure to renew or upgrade terminals during the lives of these contracts, which could adversely affect revenues or our return on capital and leave us with surplus terminals. At any given time, we have multiple substantial customer contracts that have years to run and others that may be nearing expiration or renewal, which we may lose if we cannot compete effectively to retain their business.

There can be no assurance that our current contracts will be extended or that we will be awarded contract extensions or new contracts as a result of competitive bidding processes or otherwise. The termination, expiration or failure to renew one or more of our contracts could cause us to lose substantial revenue.

Changes in applicable gambling regulations or taxation regimes may affect the revenues or profits generated by the contracts we enter into with our customers. Many of the contracts have with our customers are on revenue-sharing (net of gaming taxes) terms, and therefore changes which adversely affect our customers may also adversely affect us. In addition, any such changes may cause our customers to seek to renegotiate their contracts, may alter the terms on which such customers are prepared to renew their contracts and may affect their ability or willingness to renew their contracts.

**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 70% of total revenues in the year ended September 30, 2018. During the year ended September 30, 2018, there were three customers that each represented at least 10% of our revenues, accounting for 24%, 17% and 13% of the Company's revenues, respectively. We expect that these customers will continue to represent a significant portion of our sales in the future. However, the loss of any of our top customers, whether through contract expiry and non-renewal, breach of contract or other adverse 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 have with those customers, reduce our own revenues and adversely affect our financial results.

**We are dependent on our relationships with key suppliers to obtain equipment and other supplies for our business on acceptable terms.**

We have achieved significant cost savings through our centralization of equipment and non-equipment purchases. However, as a result, we are exposed to the credit and other risks of a group of key suppliers. While we make every effort to evaluate our counterparties prior to entering into long-term and other significant procurement contracts, we cannot predict the impact on our suppliers of the current economic environment and other developments in their respective businesses. Insolvency, financial difficulties, supply chain delays or other factors may result in our suppliers not being able to fulfill the terms of their agreements with us. Further, such factors may render suppliers unwilling to extend contracts that provide favorable terms to us, or may force them to seek to renegotiate existing contracts with us. In addition, our business has signed a number of significant contracts whose performance depends upon third party suppliers delivering equipment on schedule for us to meet its contract commitments. Failure of the suppliers to meet their delivery commitments could result in us being in breach of and subsequently losing those contracts. Although we believe we have alternative sources of supply for the equipment and other supplies used in our business, concentration in the number of our suppliers could lead to delays in the delivery of products or components, and possible resultant breaches of contracts that we have entered into with our customers; increases in the prices we must pay for products or components; problems with product quality or components coming to the end of their life; and other concerns.

**Our ability to bid on new contracts may be dependent upon our ability to fund any required up-front capital expenditures through our cash from operations, the incurrence of indebtedness or the raising of additional equity capital.**

Our SBG terminal contracts in the UK, Italy and Greece often require significant up-front capital expenditures for terminal assembly, software customization and implementation, systems and equipment installation and telecommunications configuration. Historically, we have funded these up-front costs through cash flows generated from operations and external borrowings. Our ability to continue to procure new contracts, including in new jurisdictions, will depend upon, among other things, our liquidity levels at the time or our ability to obtain additional debt or equity funding at commercially acceptable terms to finance the initial up-front costs. If we do not have adequate liquidity or are unable to obtain other funding for these up-front costs on favorable terms or at all, we may not be able to bid on certain contracts, which could restrict our ability to grow and have an adverse effect on our ability to retain existing contracts and therefore on future profitability.

**The determination by the UK Government to reduce maximum permitted bets to £2 on B2 Gaming Machines from April 2019 could have a material negative impact on our business.**

On May 17, 2018, the UK Government's Department for Digital, Culture, Media and Sport announced its principal regulatory intentions arising out of the triennial review of gaming regulation commenced by the government in October 2016. The government intends to reduce the maximum permitted betting stake for players of B2 gaming machines (also known as Fixed-Odd Betting Terminals, or FOBTs) from the current £100 to £2. The government confirmed that the implementation date for the change in maximum bets to £2 would come into effect as of April 2019.

This betting limit reduction is expected to adversely affect players' interest in and use of B2 gaming machines; the total stakes wagered on such machines; the earnings made by operators who offer such machines at their betting locations; the portion of operators' revenues that we receive under the total revenue-sharing contracts and SBG revenue-sharing contracts that we have with such operators; and demand for the supply of such machines in the future. A significant portion of our SBG revenue is derived from our revenue-sharing arrangements with customers who operate our SBG terminals as B2 gaming machines. Therefore, we expect that the reduction will have a material adverse effect on our SBG revenues and may have such an effect on our overall business.

We have sought to estimate the size of the impact that the betting limit reduction may have on our business, guided by statements made by operators regarding the impacts they expect on their business and by our own analysis. On May 21, 2018, we announced our expectation that the initial, annualized Adjusted EBITDA reduction we will experience from the betting limit reduction will be on the order of £7-8 million, or \$10-11 million at then-current exchange rates. This estimate is subject to further refinement and could change. It is possible that the actual impact will be greater than this estimate.

Nevertheless, there can be no assurance as to when, how and to what extent the betting limit reduction will adversely affect our results of operations, cash flows and financial condition. In particular, our foregoing estimate of the effect of the reduction on our business is based on a number of assumptions, including in regard to future gross win amounts on B2 gaming machines; the number and timing of betting shop closures; and cost mitigation actions we expect to be able to undertake in our SBG business. Should any of these assumptions prove to be inaccurate, our estimates as to the adverse effect on our business of the government's regulatory changes may prove to be inaccurate.

**Our business depends on our ability to prevent or mitigate the effects of a cybersecurity attack.**

Our information technology may be subject to cyber-attacks, security breaches or computer hacking including a widespread ransomware attack encrypting corporate IT equipment, a directed motivated attack against us or a data breach or cyber incident happening to a third party network and affecting us. Regardless of our efforts, there may still be a breach and the costs to eliminate, mitigate or address the aforementioned threats and vulnerabilities before or after a cyber incident could be significant. Any such breaches or attacks could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers or customers. In addition, breaches of our security measures and the unauthorized dissemination of sensitive personal, proprietary or confidential information about the Company, our business partners or other third parties could expose us to significant potential liability and reputational harm. We could also be negatively impacted by existing and proposed laws and regulations, and government policies and practices related to cybersecurity, data privacy, data localization and data protection.

## **Our business depends upon the protection of our intellectual property and proprietary information.**

We believe that our success depends, in part, on protecting our intellectual property in the UK and in other countries. Our intellectual property includes certain trademarks relating to our systems, as well as certain patents and proprietary or confidential information that is not subject to patent or similar protection. Our intellectual property protects the integrity of our games, systems, products and services, which is a core value of the industries in which we operate. Protecting our intellectual property can be expensive and time-consuming, may not always be successful depending on local laws or other circumstances, and we also may choose not to pursue registrations in certain countries. Competitors may independently develop similar or superior products, software, systems or business models. In cases where our intellectual property is not protected by an enforceable patent, or other intellectual property protection, such independent development may result in a significant diminution in the value of its intellectual property.

There can be no assurance that we will be able to protect our intellectual property. We enter into confidentiality or license agreements with our employees, vendors, consultants and, to the extent legally permissible, our customers, and generally control access to, and the distribution of, our game designs, systems and other software documentation and other proprietary information, as well as the designs, systems and other software documentation and other information we license from others. Despite our effort to protect these proprietary rights, parties may try to copy our gaming products, business models or systems, use certain of our confidential information to develop competing products, or independently develop or otherwise obtain and use our gaming products or technology, any of which could have an adverse effect on our business. Policing unauthorized use of our technology is difficult and expensive, particularly because of the global nature of our operations. The laws of some countries may not adequately protect our intellectual property.

There can be no assurance that our business activities, games, products and systems will not infringe upon, misappropriate or otherwise violate the proprietary rights of others, or that other parties will not assert infringement or misappropriation claims against us. Any such claim and any resulting litigation, should it occur, could subject us to significant liability for costs and damages and could result in invalidation of our proprietary rights, distract management, and/or require us to enter into costly and burdensome royalty and licensing agreements. Such royalty and licensing agreements, if required, may not be available on terms acceptable to us, or may not be available at all. In the future, we may also need to file lawsuits to defend the validity of our intellectual property rights and trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources.

We also rely on certain products and technologies that we license from third parties. Proprietary licenses typically limit our use of intellectual property to specific uses and for specific time periods. There can be no assurance that these third-party licenses, or the support for such licenses, will continue to be available to us on commercially reasonable terms. In the event that we cannot renew and/or expand existing licenses, we may be required to discontinue or limit our use of the products that include, incorporate, or rely on licensed intellectual property.

## **Data privacy and security laws and regulations in the jurisdictions in which we do business could increase the cost of our operations and subject us to possible sanctions and other penalties**

Our business is 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. In particular, the EU has adopted strict data privacy regulations. Following recent developments, such as the EU's General Data Protection Regulation ("GDPR") coming into force in May 2018, data privacy and security compliance in the EU are increasingly complex and challenging. Failure to comply with such restrictions could subject us to criminal and civil sanctions and other penalties. The GDPR in particular has broad extraterritorial effect and imposes a strict data protection compliance regime with penalties of up to the greater of 20 million Euro and 4% of worldwide revenue.

## **Our industry 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 may change in the future, 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 will be approved, certified or found suitable by additional jurisdictions 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 comply with and monitor 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 other legal claims against the Company. Moreover, in addition to the risk of such enforcement actions or claims, we are also at risk from loss of business reputation in the event of any potential legal or regulatory investigation whether or not we are ultimately accused of or found to have committed any violations.

We supply our products to operators of gaming venues, platforms and websites who 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 shares 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, if any of those operators is subjected to investigatory or enforcement action for acting otherwise, this 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 its market. Any such developments could adversely affect such operator's revenues and in turn adversely affect our earnings from such operator. The Company may itself be subject to investigatory or enforcement action (if and to the extent that local laws or the laws of other jurisdictions in which the Company operates impose liability on suppliers for the activities of the customers that they supply or for receiving funds that are deemed to be illegal because of such activities). We seek to protect ourselves against any such liability for the activities of the operators that we supply, including by contractually requiring those operators not to operate in certain territories and only supplying operators who we have reviewed to determine whether they uphold the requisite standards of regulatory and legal compliance. Nonetheless, there is a risk that we may fail to undertake sufficient due diligence, fail to receive accurate information on which to conduct due diligence, or 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.

**Our industry is subject to regulations that set parameters for levels of gaming or wagering duty, tax, stake, prize and return to player.**

In most jurisdictions in which we operate or expect to seek to operate, the level of duty or taxation, the stake, prize and return to player of wagering, betting and lottery games and the speed at which players can participate in gaming are defined in government regulations which are subject to change. Those regulations may also affect the premises in which gaming activities may take place (i.e., by limiting the number of gaming machines which may be housed in a licensed gaming location, or by restricting the locations in which licensed gaming premises may be situated). Once authorized, such parameters are subject to extensive and evolving governmental regulation. Moreover, such gaming regulatory requirements vary from jurisdiction to jurisdiction. Therefore, we are subject to a wide range of complex gaming parameters in the jurisdictions in which we are licensed. If a key parameter is changed, such as the level of taxation or duty or the maximum stake or prize or return to player of a game, then it may be to the detriment of our business, financial condition, results and prospects or we may be unable to distribute our products profitably.

**Our business is subject to evolving technology.**

The markets for our products are affected by changing technology, new regulations and evolving industry standards. Our ability to anticipate or respond to such changes and to develop and introduce new and enhanced products and services on a timely basis will be a significant factor in our ability to expand, remain competitive, attract new customers and retain existing contracts. For example, some of our contracts with customers require that the technology being licensed by the customer remain compliant with applicable regulations. Because regulatory changes cannot always be foreseen, such contractual requirements can from time-to-time result in us having to incur unforeseen costs to adapt our technology to changes in regulation.

Generally, there can be no assurance that we will achieve the necessary technological advances, have the financial resources, introduce new products or services on a timely basis or otherwise have the ability to compete effectively on a technological basis in the markets we serve.

**Our business competes on the basis of the stability, security and integrity of our software, networks, systems, games and products.**

We believe that our success depends, in significant part, on providing secure products and systems to our vendors and customers with high levels of uptime, quality and availability. Attempts to penetrate security measures may come from various combinations of customers, retailers, vendors, players, employees and others. Our ability to monitor and ensure quality of our products is continually reviewed and enhanced. There can be no assurance that our business might not be affected by a security breach, virus, Denial of Service attack, or technical error, failure or lapse which could have an adverse impact on our business.

Additionally, we maintain a large number of games and terminals and jackpot systems, which rely on algorithms and software designed to pay out winnings to players at certain ratios. Our systems, testing and processes to monitor and ensure the payout of games are continually reviewed and enhanced, and are additionally reviewed and tested by third-party expert test houses. There can be no assurance that our business might not be affected by a malicious or unintentional breach or technical error, failure or lapse which could have an adverse impact on payout ratios which would consequently have an adverse effect on our business in the form of lost revenues or penalty payments to players or customers. Gaming regulators may take enforcement action against us (including the imposition of significant fines) where the payout ratios fall below the ratios advertised to customers, or our software, networks, systems, games and/or products otherwise suffer from technical error, failure or lapse.

**We may be adversely affected by disruptions to our transaction gaming and lottery systems, as well as disruptions to our internal enterprise and information technology systems.**

Our operations are dependent upon our transactional gaming, lottery and information technology systems. We rely upon such systems to manage customer systems on a timely basis, to coordinate our sales and installation activities across all of our locations and to manage invoicing. A substantial disruption in our transactional gaming, lottery and information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages, computer viruses, unauthorized access or delays in its service) could result in delays in serving our customers, which could adversely affect our reputation and customer relationships and could result in monetary penalties pursuant to the terms of customer contracts. Our systems might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins, or similar disruptions affecting the Internet and our disaster recovery plan may be ineffective at mitigating the effects of these risks. Such delays, problems or costs could have an adverse effect on our financial condition, results of operations and cash flows.

**Gaming opponents persist in their efforts to curtail legalized gaming, which, if successful, could limit our existing operations.**

Legalized gaming is subject to opposition from gaming opponents, including in the UK, Italy and other markets where we are active. There can be no assurance that this opposition will not succeed in preventing the legalization of gaming in jurisdictions where these activities are presently prohibited or prohibiting or limiting the expansion or continuance of gaming where it is currently permitted, in either case to the detriment of our business, financial condition, results and prospects.

**Our directors and key personnel are subject to the approval of certain regulatory authorities, which, if withheld, would require us to sever our relationship with non-approved individuals, which could adversely impact our operations.**

Our members, managers, directors, officers and key employees must also be approved by certain government and state regulatory authorities. If such regulatory authorities were to find a person occupying any such position unsuitable, we would be required to sever our relationship with that person. We may thereby lose key personnel which would have a negative effect on our operations. Certain public and private issuances of securities and certain other transactions by us also require the approval of certain state regulatory authorities. Further, our gaming regulators can require us to disassociate ourselves from suppliers or business partners found unsuitable by the regulators. The regulatory environment in any particular jurisdiction may change in the future and any such change could have an adverse effect on our results of operations. In addition, we are subject to various gaming taxes, which are subject to increase at any time.

**Licensing and gaming authorities have significant control over our operations and ownership, and could cause us to redeem certain stockholders on potentially disadvantageous terms.**

Regulatory authorities have broad powers to request detailed financial and other information, to limit, condition, suspend or revoke a registration, gaming license or related approval and to approve changes in our 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. For example, in the UK, an entity holding a gambling license must notify the Gambling Commission of the identity of any stockholder holding, directly or indirectly, 3% or more of its equity or voting rights, and must apply for permission to continue to rely on its operating license whenever a new person acquires, directly or indirectly, 10% or more of its equity or voting rights. The failure of beneficial owners of our common stock to submit to such background checks and provide required disclosure could jeopardize our business. Our second amended and restated certificate of incorporation provides that, to the extent required by the gaming authority making the determination of unsuitability or to the extent the board of directors determines, in its sole discretion, that a person is likely to jeopardize the Company's or any affiliate's application for, receipt of, approval for, right to the use of, or entitlement to, any gaming license, shares of our capital stock that are owned or controlled by an unsuitable person or its affiliates are subject to mandatory redemption by us. The redemption price may be paid in cash, by promissory note, or both, as required, and pursuant to the terms established by, the applicable gaming authority and, if not, as we elect. Such a redemption could occur on terms or at a time that a stockholder believes to be disadvantageous.

**Changes in laws or regulations, or a failure to comply with, or liabilities under, any laws and regulations, may adversely affect our business, investments and results of operations.**

We are subject to laws and regulations enacted by national, regional, state and local governments, including non-U.S. governments. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application may also change from time to time and those changes could have an adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, or liabilities thereunder, could have an adverse effect on our business and results of operations.

**Certain of our executive officers and directors are affiliated with entities engaged in business activities similar to those conducted by us (or may enter into similar business activities in the future) and, accordingly, may have conflicts of interest in determining whether a particular business opportunity should be presented to us or to another entity.**

Certain of our executive officers and directors are affiliated with entities that are engaged in businesses similar to the ones we operate (or may enter into similar business activities in the future). As a result, any of them may become aware of business opportunities which may be appropriate for presentation to us and to other entities to which they owe certain fiduciary or contractual duties. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented — to us or to another entity. These conflicts may not be resolved in our favor and a potential business opportunity may be presented to another entity prior to its presentation to us. Our second amended and restated certificate of incorporation provides that we renounce our interest in any corporate opportunity offered to any director or officer unless such opportunity is expressly offered to such person solely in his or her capacity as a director or officer of our Company and such opportunity is one that we are legally and contractually permitted to undertake and would otherwise be reasonable for us to pursue.

**We are a holding company and conduct all of our operations through our subsidiaries.**

We are a holding company and derive all of our operating income from our subsidiaries. Other than any cash we retain, all of our assets are held by our direct and indirect subsidiaries. We rely on the earnings and cash flows of our subsidiaries, which are paid to us by our subsidiaries, if and only to the extent available, in the form of dividends and other payments or distributions, to meet our debt service obligations. The ability of our subsidiaries to pay dividends or make other payments or distributions to us will depend upon their respective operating results and may be restricted by, among other things, the laws of their jurisdiction of organization (which may limit the amount of funds available for the payment of dividends and other distributions to us), the terms of existing and future indebtedness and other agreements of our subsidiaries and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

**Our inability to complete future acquisitions of gaming and related businesses and integrate those businesses successfully could limit our future growth, if any.**

We continue to pursue expansion and acquisition opportunities in gaming and related businesses and we could face significant challenges in managing and integrating the expanded or combined operations including acquired assets, operations and personnel. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all or that we will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions. Our ability to succeed in implementing our strategy will depend upon the ability of our management to identify, complete and successfully integrate commercially viable acquisitions. Acquisition transactions may disrupt our ongoing business and distract management from other responsibilities. Any future acquisition transactions involving the use of company stock would dilute our existing stockholders and earnings per share.

**Our business may be affected by changes in general and local economic and political conditions.**

The demand for our services is sensitive to general and local economic conditions over which we have no control, including changes in the levels of consumer disposable income and geographic exposure to macro-economic trends and taxation. In addition, the economic stability of certain Eurozone countries where we conduct or intend to conduct business may become affected by sovereign debt crises or other general and local economic and political conditions. Adverse changes in economic conditions may affect our business generally or may be more prevalent or concentrated in particular markets in which we operate. Any deterioration in economic conditions or the continuation of uncertain economic conditions could have an adverse effect on our business, financial condition, results of operations and prospects. Other economic risks which may adversely affect our performance include high interest rates, inflation and volatile foreign exchange markets, and effects arising from Great Britain's exit from the European Union ("Brexit").

The performance of our business may also be subject to political risks in certain jurisdictions where we operate, including change of government, political unrest, war or terrorism.

**Our revenues can vary substantially from period to period and you should not rely upon our periodic operating results as indications of future performance.**

Our revenues are subject to variations. Wagering equipment sales and software license revenues usually reflect a limited number of large transactions, which may not recur on an annual basis. Consequently, revenues and operating results can vary substantially from period to period as a result of the timing of major equipment sales and software license revenue. In addition, revenues may vary depending on the timing of contract awards and renewals, changes in customer budgets and general economic conditions. Revenues may also vary based on adverse sequences of payouts of prizes, unusual jackpot wins, and other variations in game margin.

Our business could also be affected by natural or man-made disasters such as floods, storms or terrorist attacks. We have taken steps to have disaster recovery plans in place but there can be no assurance that such an event would not have a significant adverse impact on our business.

**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 years ended September 30, 2018 and September 30, 2017, respectively. In the year ended September 30, 2018, we earned approximately 63% of our revenue in the UK, 13% in Italy, 17% in Greece and the remaining 7% across the rest of the world. Our business in foreign markets subject 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 meet our required debt service and other obligations;
- the complexity of foreign laws, regulations and markets;

- the impact of foreign labor laws and disputes;
- potential risks relating to our ability to manage our foreign operations, monitor our customers' activities or our partners' activities which may subject us to risks involving such other entities' financial condition or to inconsistent interests or goals;
- 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
- the 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, Italy and Greece, 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.

**The capital controls imposed by Greece as a consequence of its financial crisis could cause problems for the transfer of our earnings out of Greece.**

Since 2015, Greece has imposed capital controls that complicate, and can delay or prevent, the flow of capital out of that country. Because we have significant revenue-generating operations in Greece, but also have our operational and decision-making centers outside Greece and incur costs and arrange financing in multiple jurisdictions outside Greece, in the ordinary course of our business we seek from time to time to transfer funds earned in Greece to accounts of ours outside Greece. Historically, we have been able to complete such transfers. However, from transfer to transfer, the approval procedures for making such transfers can vary in terms of duration, complication and general difficulty. If approvals of our transfers of funds out of Greece are ever materially delayed or prevented, by Greek regulations, Greek regulatory procedures or otherwise, our cash planning and our ability to deploy cash across our operations could be adversely affected, and our results of operations could suffer. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Funding Needs and Sources".

**Our business could be negatively affected by ownership changes and consolidation in the gaming industry.**

Because a substantial part of our revenue is recurring in nature, our medium to long term results of operations, cash flows and financial condition could be negatively affected if any of our customers were sold to or merged with other customers, or if consolidation in the gaming industry were otherwise effected. Consolidation among gaming operators could result in our customers using more products and services of our competitors or reducing their spending on our products, or could otherwise cause downward pricing pressures, any of which outcomes could negatively affect our business.

**We may not be able to capitalize on the expansion of interactive gaming or other trends and changes in the gaming and lottery industries, including due to laws and regulations governing these industries, and other factors.**

We participate in new and evolving aspects of the interactive gaming and lottery industries. Part of our strategy is to take advantage of the liberalization of regulations covering these industries on a global basis. These industries involve significant risks and uncertainties, including legal, business and financial risks. The fast-changing environment in these industries can make it difficult to plan strategically and can provide opportunities for competitors to grow their businesses at our expense. Consequently, our future results of operations, cash flows and financial condition are difficult to predict and may not grow at the rates we expect.

Laws relating to internet gaming are evolving. To varying degrees, governments have taken steps to change the regulation of internet wagering through the implementation of new or revised licensing and taxation regimes, including the possible imposition of sanctions on unlicensed providers. We cannot predict the timing, scope or terms of the implementation or revision of any such state, federal or foreign laws or regulations, or the extent to which any such laws and regulations may facilitate or hinder our strategy.

In jurisdictions that authorize internet gaming, we cannot assure that we will be successful in offering our technology, content and services to internet gaming operators, because we expect to face intense competition from our traditional competitors in the gaming and lottery industries as well as a number of other domestic and foreign competitors (and, in some cases, the operators themselves), many of which have substantially greater financial resources or experience in this area than we do.

Know-your-customer and geo-location programs and technologies supplied by third parties are an important aspect of certain internet and mobile gaming products and services, because they can confirm certain information with respect to players and prospective players, such as age, identity and location. Payment processing programs and technologies, typically provided by third parties, are also a necessary feature of interactive wagering products and services. These programs and technologies are costly, and our use of them may have an adverse impact on our results of operations, cash flows and financial condition. Additionally, we cannot assure that products or services containing these programs and technologies will be available to us on commercially reasonable terms, if at all, or that they will perform accurately or otherwise in accordance with required specifications.

**Our business is capital intensive and our ability to retain customers may be influenced by our ability to deploy additional capital.**

Customers of our server based gaming products may request us to incur capital expenditures to provide gaming terminals to support their land-based operations. While we seek to obtain what we believe to be satisfactory rates of return on such investments, these capital expenditures can be meaningful and may be concentrated within short periods of time. To the extent that we have insufficient access to capital or liquidity at the time that a customer, or prospective customer, makes such a request, we may be at a competitive disadvantage in retaining or attracting such customer. Such a circumstance could have an adverse effect on our business, financial condition, results of operations or prospects.

**We may be subject to claims arising from the operations of our various businesses for periods prior to the dates we acquired them.**

On December 23, 2016, the Business Combination (as defined below) that created the current Inspired Entertainment, Inc. was consummated. Since 2010 and prior to the Business Combination, we have consummated two acquisitions. We may be subject to claims or liabilities arising from the ownership or operation of acquired businesses for the periods prior to our acquisition of them, including environmental, employee-related and other liabilities and claims not covered by insurance.

**Our success depends upon our key personnel.**

Our business results depend largely upon the continued contributions of our various members of our management team, as well as certain key technical specialists, game designers, operational experts and other developers and operators of key intellectual property and processes. If we lose the services of one or more members of our management team or key employees, our business, financial condition and results of operations, as well as the market price of our securities, could be adversely affected.

**The long-term performance of our business relies on our ability to attract, develop and retain talented personnel and our labor force while controlling our labor costs.**

To be successful, we must attract, develop and retain highly qualified and talented personnel who have the experience, knowledge and expertise to successfully implement our key business strategies. We also must attract, develop and retain our labor force while maintaining labor costs. We compete for employees, including sales people, regional management, executive officers and others, with a broad range of employers in many different industries, including large multinational firms, and we invest significant resources in recruiting, developing, motivating and retaining them. The failure to attract and retain key employees, or to develop effective succession planning to assure smooth transitions of those employees and the knowledge, customer relationships and expertise they possess, could negatively affect our competitive position and our operating results. Further, if we are unable to cost-effectively recruit, train and retain sufficient skilled personnel, we may not be able to adequately satisfy increased demand for our products and services, which could adversely affect our operating results.

**Restrictions in our existing borrowings, including covenants set forth in our existing debt facilities, or any other indebtedness we may incur in the future, could adversely affect our business, financial condition, or results of operations, and our ability to make distributions to stockholders and the value of our common stock.**

Our existing borrowings, and any other indebtedness we may enter into, may limit our ability to, among other things:

- incur or guarantee additional debt;
- make distributions or dividends on or redeem or repurchase shares of common stock;
- make certain investments and acquisitions;
- make capital expenditures;
- incur certain liens or permit them to exist;

- enter into certain types of transactions with affiliates;
- acquire, merge or consolidate with another company; and
- transfer, sell or otherwise dispose of all or substantially all of our assets.

The provisions of our existing borrowings may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions.

In addition, under our debt facilities in place as of September 30, 2018, we are subject to covenant testing at quarterly intervals, consisting 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. In addition, there is the requirement that the minimum liquidity not be less than \$5.0 million.

Failure to comply with the provisions of our existing borrowings or any other indebtedness we may enter into, including the covenants set forth in our existing debt facilities, could result in a default or an event of default that could enable our lenders or other debt holders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. In addition, some of our debt could be subject to cross-acceleration terms, pursuant to which repayment of that debt would be accelerated if the repayment of other debt we owe is accelerated. If the payment of some or all of our debt is accelerated, our assets may be insufficient to repay such debt in full.

**We may have future capital needs and may not be able to obtain additional financing on acceptable terms.**

Economic and credit market conditions, the performance of the gaming industry and our financial performance, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit, economic conditions and financial, business and other factors, many of which are beyond our control.

We may require additional financing to fund our operations and growth. The failure to secure additional financing could have an adverse effect on our continued development or growth. None of our officers, directors or stockholders is required to provide any financing to us.

**We may be unable to develop sufficient new products and product lines and integrate them into our existing business, which may adversely affect our ability to compete; our expansion into new markets may present competitive and regulatory challenges that differ from current ones.**

Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which it competes or trends in new products. In addition, our ability to integrate new products and product lines into our existing business could affect our ability to compete. Furthermore, the success of new products and product lines will depend upon market demand and there is a risk that new products and product lines will not deliver expected results, which could adversely affect our future sales and results of operations. Our expansion into new markets may present competitive, distribution and regulatory challenges that differ from current ones. We may be less familiar with new product categories and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations.

**Risks Relating to Our Status as a Public Company and Ownership of Our Common Stock**

**The obligations associated with being a public company require significant resources and management attention.**

We face legal, accounting, administrative and other costs and expenses applicable to a U.S. public company. We incurred incremental costs related to operations as a public company of approximately \$5.7 million for the year ended September 30, 2018 (excluding stock-based compensation). There can be no assurance that these costs will not be higher in the future, particularly when we no longer qualify as an emerging growth company. The public company requirements include reporting obligations under the Exchange Act, which requires us to file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and we are subject to the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, the Public Company Accounting Oversight Board (the "PCAOB") and Nasdaq, each of which imposes additional reporting and other obligations on public companies. Our management may not be able to implement and maintain programs and policies in an effective and timely manner that adequately respond to such increased legal, regulatory compliance and reporting requirements, including maintaining effective internal controls over financial reporting. Further, our compliance with existing and evolving regulatory requirements results in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

**We may be required to recognize impairment charges related to goodwill, identified intangible assets and property and equipment or to take write-downs or write-offs, restructuring or other charges that could have a significant negative effect on our financial condition, results of operations and stock price, which could have an adverse effect on your investment.**

We are required to test goodwill and any other intangible asset with an indefinite life for possible impairment on the same date each year and on an interim basis if there are indicators of a possible impairment. We are also required to evaluate amortizable intangible assets and property and equipment for impairment if there are indicators of a possible impairment. There is significant judgment required in the analysis of a potential impairment of goodwill, identified intangible assets and property and equipment. If, as a result of a general economic slowdown, deterioration in one or more of the markets in which we operate or impairment in our financial performance and/or future outlook, the estimated fair value of our long-lived assets decreases, we may determine that one or more of our long-lived assets is impaired. An impairment charge would be determined based on the estimated fair value of the assets and any such impairment charge could have an adverse effect on our financial condition and results of operations.

Even though these charges may be non-cash items and would not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about the Company or our securities. In addition, charges of this nature may cause us to be unable to obtain future financing on favorable terms or at all.

**The liquidity of the trading markets for our securities and other factors may adversely affect the price of our securities.**

The price of our securities may be affected by the light volume of the trading markets for our securities as well as a variety of other factors including due to general economic conditions and forecasts, our general business condition and the release of our financial reports. If our results do not meet the expectations of investors or securities analysts, the market price of our securities may decline. In addition, fluctuations in the price of our securities could contribute to the loss of all or part of your investment. Any of the factors listed below could have an adverse effect on the price of our securities, and our securities may trade at prices significantly below the price you paid for them. In such circumstances, the trading price of our securities may not recover and may experience a further decline.

Factors affecting the trading price of the Company's securities may include:

- market conditions affecting the gaming industry;
- quarterly variations in our results of operations;
- changes in government regulations;
- the announcement of acquisitions by us or our competitors;
- changes in general economic and political conditions;
- volatility in the financial markets;
- results of our operations and the operations of others in our industry;
- changes in interest rates;
- threatened or actual litigation and government investigations;
- the determination by the UK Government, announced in November 2018, to reduce maximum permitted bets on B2 gaming machines in the UK to £2 effective as of April 2019;
- the addition or departure of key personnel;
- actions taken by our stockholders, including the sale or disposition of their shares of our common stock; and
- differences between our actual financial and operating results and those expected by investors and analysts and changes in analysts' recommendations or projections.

Broad market and industry factors may materially harm the market price of our securities irrespective of our operating performance. The stock market in general, and NASDAQ in particular, have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these stocks, and of our securities, may not be predictable. A loss of investor confidence in the market for retail stocks or the stocks of other companies which investors perceive to be similar to the Company could depress our stock price regardless of our business, prospects, financial condition or results of operations. A decline in the market price of our securities also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

Depending on the number of shares you hold and other factors, you may not be able to sell your shares at the times you prefer at desirable market prices.

Our warrants trade in over-the-counter markets operated by OTC Markets Group which may limit the ability of investors to effect transactions in the warrants.

**Our warrants could expire worthless, the terms could be amended and we may redeem them at a time that is disadvantageous to holders.**

Our warrants have an exercise price of \$5.75 per one-half of one share (\$11.50 per whole share), subject to adjustment, and may be exercised only for a whole number of shares of our common stock. There is no guarantee that the warrants will be in-the-money when warrant holders choose to exercise their warrants and they may expire worthless.

In addition, the warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us provides that the terms of the warrants may be amended without the consent of any holder in order to cure any ambiguity, correct any defective provision or to add or change a provision with respect to a matter or question that the parties may deem necessary or desirable and that the parties deem not to adversely affect the interest of the holders. Other modifications or amendments, including to increase the warrant exercise price or shorten the period of exercise, would require the approval of the holders of at least 65% of the then outstanding warrants.

We also have the ability to redeem our warrants upon 30 days' notice of redemption at a redemption price of \$0.01 per warrant, provided that (i) the last reported sale price of our common stock equals or exceeds \$24.00 per share on any 20 trading days within the 30 trading-day period ending on the third business day before we send the notice of such redemption and (ii) on the date we give notice of redemption and during the entire period thereafter until the time the warrants are redeemed, there is an effective registration statement under the Securities Act covering the shares of our common stock issuable upon exercise of the warrants and a current prospectus relating to them is available unless we have notified holders in the notice of redemption that we have elected to require the warrants to be exercised on a cashless basis. Redemption of the outstanding warrants could force holders:

- to exercise their warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so;
- to sell their warrants at the then-current market price when they might otherwise wish to hold their warrants; or
- to accept the nominal redemption price if their warrants remain unexercised on the redemption date regardless of the market value of the shares underlying the warrants at the time of the redemption.

The redemption rights that we have under the warrant agreement do not extend to the private warrants provided they continue to be held by the initial purchasers or their permitted transferees.

**Concentration of ownership of the Company may have the effect of delaying or preventing a change in control and sales of substantial amounts of our shares may impact the market price of our shares.**

Our largest stockholder, Landgame S.à.r.l, holds approximately 28% of the outstanding common stock of the Company and is party to a stockholders agreement with us that provides it with the right to designate two of the seven members of our board of directors. In addition, under the same stockholders agreement, another one of our stockholders, Hydra Industries Sponsor LLC (the "Hydra Sponsor"), has the right to nominate one director, and affiliates of Macquarie Group Limited (the "Macquarie Sponsor") have the right, jointly with the Hydra Sponsor, to nominate two directors. As a result, these stockholders have the ability to exert influence over our business and may support or make decisions with which other stockholders may disagree and that could have the effect of delaying or preventing a change of control or adversely affecting the market price of our common stock.

If Landgame S.à.r.l or other of our stockholders sell substantial amounts of their shares in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of common stock could also depress our market price. A decline in the price of the shares of our common stock could impede our ability to raise capital through the issuance of additional shares or other equity securities. Moreover, any such decline could result in our common stock trading at prices significantly below the price you paid.

**Pursuant to the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 for so long as we are an "emerging growth company."**

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting, and generally requires in the same report a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. The Company was required to provide management's attestation on internal controls effectiveness with respect to the years ended September 30, 2017 and September 30, 2018. However, under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 until we are no longer an "emerging growth company." We will remain an "emerging growth company" until December 31, 2019 or, if earlier, the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. An "emerging growth company" can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have chosen not to "opt out" of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of our financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.



We cannot predict if investors will find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

**We do not currently intend to pay dividends on our common stock.**

We do not currently expect to pay cash dividends on our common stock. Any future dividend payments are within the absolute discretion of our board of directors and will depend upon, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, level of indebtedness, contractual restrictions with respect to payment of dividends, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant.

**Our business and stock price may suffer if securities or industry analysts do not publish or cease publishing research or reports about the Company, our business, or our market, or if they change their recommendations regarding our common stock adversely, the price and trading volume of our common stock could decline.**

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If securities or industry analysts do not continue to cover the Company, our stock price and trading volume would likely be negatively affected. If any of the analysts who may cover the Company change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who may cover the Company were to cease coverage of the Company or fail to regularly publish reports on the Company, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

**We may issue a significant number of shares of our common stock or other securities from time to time.**

We may issue shares of our common stock or other securities from time to time as consideration for, or to finance, future acquisitions and investments or for other capital needs. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our common stock. If any such acquisition or investment is significant, the number of shares of common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial and may result in additional dilution to our stockholders. We may also grant registration rights covering shares of our common stock or other securities that we may issue in connection with any such acquisitions and investments.

**Anti-takeover provisions contained in our second amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.**

Our second amended and restated certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director with or without cause by stockholders, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to determine whether to issue shares of our preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- limiting the liability of, and providing indemnification to, our directors and officers;
- the Court of Chancery of the State of Delaware as the exclusive forum for adjudication of disputes;
- controlling the procedures for the conduct and scheduling of stockholder meetings; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of the Company.

These provisions, alone or together, could delay hostile takeovers and changes in control of the Company or changes in our board of directors and management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. In addition, effective August 13, 2017, we have adopted a stockholder rights plan in the form of a Rights Agreement, which could have the effect of making it uneconomical for a third party to acquire us on a hostile basis. Any provision of our second amended and restated certificate of incorporation or bylaws, the Stockholders' Rights Agreement or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

### **Risks Relating to Economic and Political Conditions**

#### **Volatility or disruption in the financial markets could materially adversely affect our business and the trading price of our common stock.**

Our business relies on stable and efficient financial markets. Any disruption in the credit and capital markets could adversely impact our ability to obtain financing on acceptable terms. Volatility in the financial markets could also result in difficulties for financial institutions and other parties that we do business with, which could potentially affect the ability to access financing under existing arrangements. We are exposed to the impact of any global or domestic economic disruption, including any potential impact of the decision by the United Kingdom to exit the

European Union and the sovereign debt crises in certain Eurozone countries where we do business. Our ability to continue to fund operating expenses, capital expenditures and other cash requirements over the long term may require access to additional sources of funds, including equity and debt capital markets, and market volatility and general economic conditions may adversely affect our ability to access capital markets. In addition, the inability of our vendors to access capital and liquidity with which to maintain their inventory, production levels and product quality and to operate their businesses, or the insolvency of our vendors, could lead to their failure to deliver merchandise. If we are unable to purchase products when needed, our sales could be materially adversely affected. Accordingly, volatility or disruption in the financial markets could impair our ability to execute our growth strategy and could have an adverse effect on the trading price of our common stock.

#### **Currency exchange rate fluctuations could result in lower revenues, higher costs and decreased margins and earnings.**

We conduct purchase and sale transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates globally. We also have bank loans that are denominated in USD. Additionally, there has been, and may continue to be, volatility in currency exchange rates as a result of the United Kingdom's June 23, 2016 referendum in which voters approved Brexit. It is possible that sovereign debt crises in certain Eurozone countries could lead to the abandonment of the Euro and the reintroduction of national currencies in those countries. International revenues and expenses generally are derived from sales and operations in various foreign currencies, and these revenues and expenses could be affected by currency fluctuations, specifically amounts recorded in foreign currencies and translated into USD for consolidated financial reporting, as weakening of foreign currencies relative to the USD will adversely affect the USD value of the Company's foreign currency-denominated sales and earnings. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations could have an adverse effect on our results of operations and financial condition.

We have hedged our USD-denominated bank loans (see Note 13 to the Consolidated Financial Statements, "Hedges of Multiple Risks"), and may hedge other foreign currency exposures to lessen and delay, but not to completely eliminate, the effects of foreign currency fluctuations on our financial results. Since the hedging activities are designed to lessen volatility, they not only reduce the negative impact of a stronger USD or other trading currency, but they also reduce the positive impact of a weaker USD or other trading currency. Our future financial results could be significantly affected by the value of the USD in relation to the foreign currencies in which we conduct business. The degree to which our financial results are affected for any given time period will depend in part upon our hedging activities, and there can be no assurance that our hedging activities will be effective.

#### **Global economic conditions could have an adverse effect on our business, operating results and financial condition.**

The uncertain state of the global economy continues to affect businesses around the world, most acutely in emerging markets and developing economies. If global economic and financial market conditions do not improve or deteriorate, the following factors could have an adverse effect on our business, operating results and financial condition:

- Slower consumer spending may result in reduced demand for our products, reduced orders from retailers for our products, order cancellations, lower revenues, higher discounts, increased inventories and lower gross margins;
- In the future, we may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so;

- We conduct transactions in various currencies, which increases our exposure to fluctuations in foreign currency exchange rates relative to the USD. Continued volatility in the markets and exchange rates for foreign currencies and contracts in foreign currencies could have a significant impact on our reported operating results and financial condition;
- Continued volatility in the availability and prices for commodities and raw materials we use in our products and in our supply chain could have an adverse effect on our costs, gross margins and profitability;
- If operators or distributors of our products experience declining revenues or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in reduced orders for our products, order cancellations, late retailer payments, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense;
- If operators or distributors of our products experience severe financial difficulty, some may become insolvent and cease business operations, which could negatively affect the sale of our products to consumers; and
- If contract manufacturers of our products or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products.

**International hostilities, terrorist or cyber-terrorist activities, natural disasters, pandemics, and infrastructure disruptions could prevent us from effectively serving our customers and thus adversely affect our results of operations.**

Acts of terrorist violence, cyber-terrorism, political unrest, armed regional and international hostilities and international responses to these hostilities, natural disasters, including hurricanes or floods, global health risks or pandemics or the threat of or perceived potential for these events could have a negative impact on us. These events could adversely affect our customers' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our employees and our physical facilities and operations around the world, whether the facilities are ours or those of our third-party service providers or customers. By disrupting communications and travel and increasing the difficulty of obtaining and retaining highly skilled and qualified personnel, these events could make it difficult or impossible for us to deliver products and services to our customers. Extended disruptions of electricity, other public utilities or network services at our facilities, as well as system failures at our facilities or otherwise, could also adversely affect our ability to serve our customers. We may be unable to protect our employees, facilities and systems against all such occurrences. We generally do not have insurance for losses and interruptions caused by terrorist attacks, conflicts and wars. If these disruptions prevent us from effectively serving our customers, our results of operations could be adversely affected.

**We face risks arising from the results of the public referendum held in United Kingdom and its membership in the European Union.**

The ongoing developments following from the United Kingdom's public referendum vote to exit from the European Union could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with existing and potential customers, suppliers and employees. Negotiations have commenced to determine the terms of the United Kingdom's future relationship with the European Union, including the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend upon any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. As with other businesses operating in the UK and Europe, the measures could potentially have corporate structural consequences, adversely change tax benefits or liabilities in these or other jurisdictions and could disrupt some of the markets and jurisdictions in which we operate. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. In addition, the announcement of Brexit has caused significant volatility in global stock markets and currency exchange rate fluctuations, including the strengthening of the USD against some foreign currencies, and the Brexit negotiations may continue to cause significant volatility. The progress and outcomes of Brexit negotiations also may create global economic uncertainty, which may cause customers and potential customers to monitor their costs and reduce their budgets for products and services. Any of these effects of Brexit, among others, could materially adversely affect the business, business opportunities, results of operations, financial condition and cash flows of our Company.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

The Company occupies approximately 90,500 square feet of leased space in the United Kingdom, 3,400 square feet of leased space elsewhere in Europe and a small office in New York:

- We lease approximately 8,000 square feet of office space on one floor in Birmingham, West Midlands.

- We lease approximately 11,000 square feet of office space on one floor in Burton-on-Trent, East Midlands.
- We lease approximately 6,500 square feet of office space on two floors in London.
- We lease approximately 10,500 square feet of office space on two floors in Manchester.
- We lease approximately 50,000 square feet of administrative offices, workshop and warehousing in Wolverhampton, West Midlands.
- We occupy, out of lease, approximately 4,500 square feet of office space on one floor in Bangor, North Wales.
- We lease approximately 1,000 square feet of an administrative office and workshop in Villasanta, northern Italy.
- We lease approximately 2,000 square feet of offices on one floor in Rome, Italy.
- We lease approximately 400 square feet of office space on one floor in Gibraltar.
- We occupy unleased space in the offices of Hydra Management, LLC, at 250 West 57th Street, Suite 2223, New York, NY 10107. Discussions on leasing by the Company are ongoing.

As discussed in Item 1, "Operations and Employees," we are currently reviewing a consolidation and relocation of certain of its operations in the United Kingdom.

### **ITEM 3. LEGAL PROCEEDINGS.**

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have an adverse effect on its business, financial condition or results of operations.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### Market Information

Our common stock is listed and traded on the Nasdaq Capital Market under the symbol "INSE". Until December 2016, our common stock, warrants and units were traded under the symbols "HDRA," "HDRAW," and "HDRAU," respectively. Upon the consummation of the Business Combination, we separated our units into their component securities and the units ceased public trading. In April 2017, our warrants transitioned from NASDAQ to the over-the-counter markets operated by OTC Markets Group, where they trade under the symbol "INSEW".

#### Holders

As of November 30, 2018, there were 55 holders of record of our common stock and 11 holders of record of our warrants.

#### Recent Sales of Unregistered Securities

In September 2018, we granted an aggregate of 534,118 restricted stock units 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.

On August 13, 2018, Gaming Acquisitions Limited, an indirect wholly owned subsidiary of the Company, certain subsidiaries of the Company and the Company entered into a Note Purchase Agreement and Guaranty to provide for the issuance and sale of promissory notes in the aggregate principal amount of \$140,000,000, maturing in five years (the "Notes"), to the purchasers party thereto from time to time, including HG Vora Special Opportunities Master Fund, Ltd. ("HGV Fund"), with Cortland Capital Market Services LLC acting as note and collateral agent for the Purchasers. HGV Fund currently holds approximately 95% of the Notes. As disclosed in stock ownership filings with the Securities and Exchange Commission pursuant to Section 16 under the Securities Act of 1934, HGV Fund owns approximately 17.5% of the Company's outstanding common stock as well as warrants to purchase shares of the Company's common stock. HGV Fund is also a stockholder and investor in Leisure Acquisition Corp., a special purpose acquisition company affiliated with two members of the Company's management. 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.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

## ITEM 6. SELECTED FINANCIAL DATA.

Not required.

## ITEM 7. 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 elsewhere in this report.*

### Forward-Looking Statements

We make forward-looking statements in this Annual Report on Form 10-K. 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 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 Virtual Sports (which includes Interactive) and Server Based Gaming (“SBG”) 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.

On December 23, 2016, the business combination that created the current Inspired Entertainment, Inc. was consummated (the “Business Combination” or the “Merger”). In connection with the Merger, the Company changed its name from Hydra Industries Acquisition Corp. to Inspired Entertainment, Inc., and changed its fiscal-year end to September 30.

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. We intend to file a transition report on Form 10-Q, covering the transition period of October 1, 2018 to December 31, 2018, following the conclusion of that transition period.

## ***Business Segments***

We report our operations in two business segments, Virtual Sports (which includes Interactive, an operating segment which does not exceed the quantitative thresholds in ASC 280-10-50-12) and SBG, 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.

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.

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.

## ***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. Under our participation agreements, payments made to us are calculated based upon a percentage of the net win, which is the amount of earnings generated from end-users playing the gaming machines, after adjusting for player winnings and relevant gaming taxes. Product sales include the sale of new SBG terminals and associated parts to gaming and betting operators. Software license revenues are principally related to our Virtual Sports product and to license sales of our SBG platform.

### ***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 twelve months ended September 30, 2018, we earned approximately 63.4% of our revenue in the UK, 16.6% in Greece, 13.2% in Italy and the remaining 6.9% across the rest of the world. During the twelve months ended September 30, 2017, we earned approximately 65.5%, 9.4%, 13.6% and 11.6% 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 twelve months ended September 30, 2018, we derived approximately 36.6% of our revenue from sales to customers outside of the UK compared to 34.5% during the twelve months ended September 30, 2017.

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 like-for-like, is calculated as the difference in our functional currency, multiplied by the prior-period average GBP: USD rate, less the variance due to the additional six days in 2017 as compared to 2018, as a proxy for the like-for like movement. 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 twelve-month period ended September 30, 2018, compared to the same period in 2017; and
- a discussion and analysis of the results of operations of our SBG and Virtual Sports business segments for the twelve-month period ended September 30, 2018, compared to the same period in 2017, including KPI analysis.

The twelve-month financial periods presented consist of a 365-day period for 2018 and a 371-day period for 2017. The balance sheet date for both 2018 and 2017 is September 30. Each of the foregoing periods is herein referred to as a “twelve-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 twelve-month periods ended September 30, 2018 and 2017, the average USD: GBP rate was 1.35 and 1.28, respectively.

In the tables below, the “Days Movement” column represents values relating to the additional six days in the 2017 “twelve-month period” as compared to the 2018 “twelve-month period”. The “Days Movement” column allows for the comparisons shown in the additional “Like-for-Like Variance” columns. For line items in respect of which daily information was available for the additional days in 2017, specific adjustments were made. For line items in respect of which no such information was available, a straight-line method was used to provide pro-rated values. For certain line items, such as Stock-based compensation and Change in fair value of earnout liability, there were no values relating to the additional days in 2017.

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



Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017

(In thousands)	For the Twelve-Month Period ended		Variance		Variance			
	September 30, 2018	September 30, 2017	2018 vs 2017		Currency Movement	Days Movement	Like-for-Like Variance	
<b>Revenue:</b>								
Service	\$ 130,924	\$ 107,496	\$ 23,428	21.8%	\$ 7,198	(\$ 1,562)	\$ 17,791	16.8%
Hardware	10,457	15,048	(4,591)	(30.5%)	621	—	(5,211)	(34.6%)
<b>Total revenue</b>	<b>141,381</b>	<b>122,544</b>	<b>18,837</b>	<b>15.4%</b>	<b>7,819</b>	<b>(1,562)</b>	<b>12,580</b>	<b>10.4%</b>
Cost of sales, excluding depreciation and amortization:								
Cost of service	(22,601)	(15,845)	(6,756)	42.6%	(1,263)	256	(5,749)	36.9%
Cost of hardware	(8,179)	(10,839)	2,660	(24.5%)	(546)	—	3,206	(29.6%)
Selling, general and administrative expenses	(60,114)	(58,301)	(1,813)	3.1%	(3,382)	841	728	(1.3%)
Stock-based compensation	(7,424)	(4,235)	(3,189)	75.3%	(397)	—	(2,791)	65.9%
Impairment expense	(7,679)	—	(7,679)	N/A	—	—	(7,679)	N/A
Acquisition related transaction expenses	(864)	(11,411)	10,547	(92.4%)	(55)	—	10,601	(92.9%)
Depreciation and amortization	(41,832)	(33,810)	(8,022)	23.7%	(2,322)	498	(6,198)	18.6%
<b>Net operating loss</b>	<b>(7,312)</b>	<b>(11,897)</b>	<b>4,585</b>	<b>(38.5%)</b>	<b>(146)</b>	<b>33</b>	<b>4,699</b>	<b>(39.6%)</b>
<b>Other income (expense)</b>								
Interest income	205	55	150	271.8%	13	(1)	137	252.4%
Interest expense	(20,648)	(29,358)	8,710	(29.7%)	(1,179)	883	9,006	(31.6%)
Change in fair value of earnout liability	8,707	(7,127)	15,834	(222.2%)	586	—	15,248	(214.0%)
Change in fair value of derivative liability	(5,500)	(385)	(5,115)	1328.5%	(11)	—	(5,104)	1325.6%
Other finance income (costs)	4,134	(218)	4,352	(1996.2%)	117	3	4,231	(1970.9%)
<b>Total other expense, net</b>	<b>(13,102)</b>	<b>(37,033)</b>	<b>23,931</b>	<b>(64.6%)</b>	<b>(474)</b>	<b>886</b>	<b>23,520</b>	<b>(65.1%)</b>
<b>Net loss from continuing operations before income taxes</b>	<b>(20,414)</b>	<b>(48,930)</b>	<b>28,516</b>	<b>(58.3%)</b>	<b>(620)</b>	<b>918</b>	<b>28,219</b>	<b>(58.8%)</b>
Income tax expense	(182)	(184)	2	(0.9%)	(11)	(0)	13	(7.2%)
<b>Net loss</b>	<b>(\$ 20,596)</b>	<b>(\$ 49,114)</b>	<b>\$ 28,518</b>	<b>(58.1%)</b>	<b>(\$ 632)</b>	<b>\$ 918</b>	<b>\$ 28,232</b>	<b>(58.6%)</b>

Exchange Rate - \$ to £

1.35

1.28

**Revenue**

Total revenue for the period ended September 30, 2018 increased by \$18.8 million, or 15.4%, to \$141.4 million. Favorable currency movements accounted for \$7.8 million of the increase, which was partly offset by a \$1.6 million decrease due to fewer days in the 2018 period. On a like-for-like basis, revenue increased by \$12.6 million, or 10.4%.

SBG revenue, which is included in total revenue, above, increased by \$9.9 million on a like-for-like basis, or 11.3%, comprised of growth in service revenue of \$15.1 million offset by a reduction in hardware sales of \$5.2 million.

On a like-for-like basis SBG service revenue increased by \$15.1 million, or 20.7%, primarily due to Greece driving total incremental revenue of \$14.3 million. This was driven by the continued rollout into the Greek market which drove additional participation revenue of \$6.8 million and other recurring revenue of \$2.3 million. In addition, during the 2018 period we completed software license sales into the Greek market, generating additional revenue of \$5.2 million compared to the prior period.

The decrease in hardware revenue was driven by a decrease in the Greek and Colombian markets of \$5.4 million and \$3.5 million, respectively. This was partly offset by SBG terminal sales in the UK, Electronic Table Games (“ETG”) and Italian markets of \$2.1 million, \$1.3 million and \$0.4 million, respectively.

Virtual Sports revenue increased by \$2.7 million on a like-for-like basis, or 8.1%, driven by new customer revenue in Interactive and new Virtual Sports customers in Greece, Ireland, Finland and Poland, as well as an increase in revenue from existing customers, due in part to additional channels offered. Growth was negatively affected by \$1.7 million due to a reduction in revenue from long-term Virtual Sports licenses that have now come to an end, \$0.7 million due to a timing difference in the 2018 contract renewal of a major customer and \$0.5 million due to the recognition of revenues previously unreported to us in 2017. Excluding these items, underlying Virtual Sports revenue increased by \$5.4 million, or 20.8%, of which \$4.2 million came from Virtual Sports land-based and online customers and \$1.2 million from Interactive.

#### ***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, increased by \$4.1 million, or 15.4%, on a reported basis, to \$30.8 million. Of this increase, \$1.8 million arose from adverse currency movements, offset by a reduction of \$0.3 million due to there being fewer days in the 2018 period. On a like-for-like basis, cost of sales increased by \$2.5 million, or 9.6%.

Cost of service increased by \$5.7 million, or 36.9%, on a like-for-like basis, due to an increase in Greece SBG service costs of \$3.5 million, an increase to service UK SBG terminals of \$2.1 million, which was due to \$1.3 million additional machine consumable costs and \$0.8 million other SBG costs, and \$0.3 million due to additional costs from supporting new recurring contracts for Virtual Sports.

Cost of hardware decreased by \$3.2 million, or 29.6%, on a like-for-like basis, due to lower nil margin hardware sales in Greece and lower hardware sales in the Colombian market. This was partly offset by higher nil margin sales of the “Flex 4k”<sup>TM</sup> product terminal and other hardware sales in the UK, ETG and Italian markets.

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

SG&A expenses increased by \$1.8 million, or 3.1%, on a reported basis, to \$60.1 million. Of this increase, \$3.4 million arose from adverse currency movements, offset by a reduction of \$0.8 million due to fewer days in the 2018 period. On a like-for-like basis, SG&A expenses decreased by \$0.7 million, or 1.3%. This decrease was driven by staff related cost savings of \$4.4 million, offset by additional public company costs of \$1.8 million due to the prior period containing only nine months of post-Business Combination transaction expenses, as well as a decrease in labor capitalization of \$1.1 million due to mix of projects and incremental group restructuring costs of \$0.5 million.

#### ***Stock-based compensation***

During 2018, the Company recorded an expense of \$7.4 million with respect to outstanding awards. This included a \$2.1 million charge relating to the cancellation of awards under the First Incentive Plan covering 1,076,272 shares. In 2017, there was a \$4.2 million charge for stock-based compensation. The 2017 charge represented only 9 months of charges with the initial awards being made on December 22, 2016.

#### ***Impairment expense***

An impairment expense in the period, considered to be outside the normal course of business, amounted to \$7.7 million. Following a review of key strategic areas and therefore future priority areas by the Office of the Executive Chairman, the carrying value of these assets were deemed to be in excess of their current fair value. Of the total impairment, \$4.9 million was related to intangible fixed assets, \$0.6 million to accrued income, \$1.9 million to prepayments and \$0.3 million to trade and other debtors.

#### ***Acquisition related transaction expenses***

Acquisition related transaction expenses decreased by \$10.5 million in the period to \$0.9 million. All of the 2018 period expenses were related to work with respect to potential acquisitions. All of the prior period expenses were related to the Business Combination.

#### ***Depreciation and amortization***

Depreciation and amortization in the period increased by \$8.0 million, or 23.7%, to \$41.8 million. Of this increase, \$2.3 million arose from adverse currency movements, partly offset by \$0.5 million due to fewer days in the 2018 period.

On a like-for-like basis, depreciation and amortization increased by \$6.2 million, or 18.6%. This increase was driven by additional machine and machine related depreciation on SBG of \$1.7 million and additional amortization in connection with new platforms and games going live on SBG (\$4.5 million) and Virtual Sports (\$0.4 million). This was offset by a reduction of non-market specific depreciation and amortization of \$0.4 million.

#### ***Net operating loss***

On a reported basis, net operating loss improved from a loss of \$11.9 million in 2017 to a loss of \$7.3 million in the period. This improvement was partly offset by a \$0.1 million adverse currency movement. On a like-for-like basis, net operating loss decreased by \$4.7 million, mainly due to an increase in revenue and a reduction in transaction expenses, partly offset by higher cost of sales, depreciation and amortization, impairment expense and stock-based compensation.

#### ***Interest expense***

Interest expense decreased by \$8.7 million, or 29.7%, in the period, to \$20.6 million, on a reported basis. Of this variance, \$1.1 million arose from adverse currency movements, partly offset by \$0.9 million due to fewer days in the 2018 period. On a like-for-like basis, interest expense decreased by \$9.0 million. This decrease was principally due to a \$9.5 million reduction in PIK loan note interest. All PIK loan notes were external to the group prior to the Business Combination, at which point they became internal before subsequently being waived on May 31, 2017.

#### ***Change in fair value of earnout liability***

As a result of changes relating to six specific countries, China, Colombia, Greece, Norway, Spain and Ukraine, and share price movements (\$6.10 at September 30, 2018 and \$13.25 at September 30, 2017), the credit that accrued in 2018 resulting from a change in fair value of earnout liability was \$8.7 million. In the prior period, the corresponding figure was a \$7.1 million charge.

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

Change in fair value of derivative liability increased by \$5.1 million, to a \$5.5 million charge on a reported basis, between 2017 and 2018. The fair valuing of the cross-currency swaps executed in August 2018 on the refinancing of the company resulting in a charge of \$7.4 million which was partly offset by a \$1.9 million credit for the derivative awards due to the reduction in share price and the conversion of the awards in March 2018 to stock-based compensation.

#### ***Income tax expense***

We recorded a \$0.2 million income tax expense for the period and a \$0.2 million expense for the period ended September 30, 2017. Our effective tax rate for the period ending September 30, 2018 was (0.9)%, and our effective tax rate for the period ending September 30, 2017 was (0.4)%.

#### ***Net loss***

On a reported basis, net loss improved from a loss of \$49.1 million to a loss of \$20.6 million in the period ended September 30, 2018. Of this variance, \$0.6 million arose from adverse currency movements, offset by \$0.9 million due to fewer days in the 2018 period. This resulted in a like-for-like improvement of \$28.2 million, mainly due to an increase in revenue and the change in fair value of liabilities as well as a reduction in interest expense and transaction expenses. This was partly offset by higher cost of sales, depreciation and amortization, impairment expense and stock-based compensation.

#### ***Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017 – Server Based Gaming Segment***

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

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

**SBG segment, Key Performance Indicators**

SBG	For the Twelve-Month Period ended		Variance	
	September 30, 2018	September 30, 2017	2018 vs 2017	%
End of period installed base (# of terminals)	33,194	28,715	4,479	15.6%
Average installed base (# of terminals)	31,198	27,666	3,532	12.8%
Customer Gross Win per unit per day <sup>(1)</sup>	£ 112.91	£ 116.83	(£ 3.92)	(3.4%)
Customer Net Win per unit per day <sup>(1)</sup>	£ 80.58	£ 84.18	(£ 3.60)	(4.3%)
Inspired Blended Participation Rate	6.1%	6.0%	0.1%	

<sup>(1)</sup> 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 Twelve Months ended September 30, 2018***

Our SBG rollout into the Greek market continued during the period, with approximately 5,550 terminals installed as of September 30, 2018. During the period a further 3,000 terminals were awarded, taking our total to a contracted 8,360 terminals. These additional 3,000 terminals form part of our phase two rollout plan to be installed and live by the middle of 2019. We believe the performance of our Greek terminals continues to be very strong compared to other suppliers.

During the period, we launched our new SBG cabinet, the “Flex 4K”™ product with trials with two of our major UK LBO customers, and we sold 600 Flex terminals to our second largest UK LBO customer, all of which were installed before the end of the period. We deployed a further 600 of our “Eclipse” terminals with the same UK customer, resulting in a total machine growth of 23% with this customer. The new Flex cabinet is also being trialed in the UK Casino and Bingo B3 market with four customers. These terminals were installed as of September 30, 2018.

Three of our major UK LBO customers agreed to contract extensions with two of these extensions including additional deployment of terminals, further increasing the size of our UK LBO estate.

In the UK ETG market, we launched our new SBG cabinet “Sabre Hydra”. During the period, we completed the outright sale of over 150 Sabre Hydra terminals to three customers, including 120 into 25 venues across one of our largest customers.

In the Italian market, a contract extension was agreed for a further four years with our largest customer. The contract included a continuation of hardware, platform and games supply. Additionally, we now provide up to 2,024 SBG VLT terminals with both remote and field services. The contract also included an increased revenue share due to the Company. Customer Gross Win per unit per day (in EUR) in the Italian market across all customers increased by 14.0% due to new content releases.

Overall, the size of our Average Installed Base increased 12.8%, to 31,198, due to our continued terminal rollout in Greece and growth from new contract awards in the UK LBO estate. Customer Gross Win per unit per day (in our functional currency, GBP) decreased by 3.4% 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. Our blended participation rate increased 0.1% to 6.1% due to an increased proportion of Greece installed base.

Customer Net Win per unit per day (in GBP) declined by 4.3%, in line with the reduction in Customer Gross Win per unit per day, due to the increased volume of Greece machines which dilute the Net Win per unit in the period.

***SBG segment, key events that affected results for the Twelve Months ended September 30, 2017***

Our SBG rollout into the Greek market commenced during this period, with nearly 1,900 terminals installed as of September 30, 2017. We believe the performance of our Greek terminals was strong against our competitors in the period. Our UK SBG terminals in LBOs generated Gross Win per unit per day growth of 3.5% year-over-year.

During the period, an additional 1,250 Self Service Betting Terminals (“SSBTs”) were sold and deployed in the UK market. These terminals also provide recurring service revenue.

In Colombia, just over 1,000 SBG terminals were sold in the quarter ending September 30, 2017.

Customer Gross Win per unit per day (in our functional currency, GBP) increased by 0.6%, driven by an increase in Customer Gross Win in the UK (including the non-LBO sector) of 1.9%, in Italy of 13.6% and in Colombia of 3.1%. This was mostly offset by the impact of our SBG installations in Greece; our Greek machines return a lower daily Customer Gross Win compared with our UK machines.

Customer Net Win per unit per day (in GBP) declined by 0.2%, despite an increase in Customer Gross Win per unit per day, as a result of an increase in the tax rate in Italy from 6.3% to 6.8%, which became effective on April 25, 2017.

**SBG Segment, Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017**

Server Based Gaming <i>(In thousands)</i>	For the Twelve-Month Period ended		Variance		Currency Movement	Variance		Like-for-Like Variance
	September 30, 2018	September 30, 2017	2018 vs 2017			Days Movement		
	\$ '000	\$ '000	\$ '000	%				
<b>Revenue:</b>								
Service	\$ 93,161	\$ 74,072	\$ 19,089	25.8%	\$ 5,103	(\$ 1,138)	\$ 15,124	20.7%
Hardware	10,457	15,048	(4,591)	(30.5%)	621	—	(5,211)	(34.6%)
<b>Total revenue</b>	<b>103,618</b>	<b>89,120</b>	<b>14,498</b>	<b>16.3%</b>	<b>5,724</b>	<b>(1,138)</b>	<b>9,912</b>	<b>11.3%</b>
<b>Cost of sales, excluding depreciation and amortization:</b>								
Cost of service	(17,975)	(11,688)	(6,287)	53.8%	(992)	195	(5,491)	47.8%
Cost of hardware	(8,179)	(10,839)	2,660	(24.5%)	(546)	—	3,206	(29.6%)
<b>Total cost of sales</b>	<b>(26,154)</b>	<b>(22,527)</b>	<b>(3,627)</b>	<b>16.1%</b>	<b>(1,538)</b>	<b>195</b>	<b>(2,285)</b>	<b>10.2%</b>
Selling, general and administrative expenses	(15,693)	(15,569)	(124)	0.8%	(866)	234	508	(3.3%)
Impairment expense	(4,715)	—	(4,715)	N/A	—	—	(4,715)	N/A
Stock-based compensation	(261)	(231)	(30)	13.0%	(14)	—	(16)	6.9%
Depreciation and amortization	(34,142)	(26,367)	(7,775)	29.5%	(1,926)	346	(6,195)	23.8%
<b>Net operating income</b>	<b>\$ 22,653</b>	<b>\$ 24,426</b>	<b>(\$ 1,773)</b>	<b>(7.3%)</b>	<b>\$ 1,380</b>	<b>(\$ 362)</b>	<b>(\$ 2,790)</b>	<b>(11.6%)</b>

**SBG segment revenue.** In the period revenue increased \$14.5 million, to \$103.6 million, on a reported basis. Of this increase, \$5.7 million arose from favorable currency movements, partly offset by \$1.1 million due to fewer days in the 2018 period. On a like-for-like basis, SBG revenue increased by \$9.9 million, or 11.3%.

Service revenue increased by \$19.1 million, or 25.8%, on a reported basis. Of this increase, \$5.1 million arose from favorable currency movements, partly offset by \$1.1 million due to fewer days in the 2018 period. On a like-for-like basis, SBG service revenue increased by \$15.1 million, or 20.7%, to \$93.2 million. This was due to an increase in the Greek, Italian, UK Other and UK LBO markets by \$14.3 million, \$0.9 million, \$0.6 million and \$0.2 million, respectively, due to the continued rollout in Greece and growth in the UK and Italian markets. This was partly offset by a decrease in service revenue in other jurisdictions by \$0.9 million primarily due to the revised terms in Colombia following the sale of machines in 2017.

The continued rollout into the Greek market drove additional participation revenue of \$6.8 million and other recurring revenue of \$2.3 million. In addition, during the 2018 period we completed software license sales into the Greek market, generating additional revenue of \$5.2 million compared to the prior period.

UK LBO Customer Gross Win per unit per day grew by 1.3%. These gains were offset by revised terms agreed in SBG contract renewals with three major customers in our UK LBO market. The contract renewals allowed us to continue to generate revenue without the obligation to make further capital investments.

Hardware revenue decreased by \$4.6 million to \$10.5 million, on a reported basis, including favorable currency movements of \$0.6 million. On a like-for-like basis, SBG hardware revenue decreased by \$5.2 million, principally due to higher terminal sales in 2017 in the Greek and Colombian markets, totaling \$5.4 million and \$3.5 million, respectively. This was partly offset by higher sales in 2018 in the UK, ETG and Italian markets of \$2.1 million, \$1.3 million and \$0.4 million, respectively.

**SBG segment operating income.** Cost of sales (excluding depreciation and amortization) increased by \$3.6 million to \$26.2 million, on a reported basis. Of this variance, \$1.5 million arose from adverse currency movements, partly offset by \$0.2 million due to fewer days in the period. On a like-for-like basis, cost of sales increased by \$2.3 million. This was principally due to an increase in service costs of \$5.5 million due to Greek SBG service costs of \$3.5 million, as well as additional UK machine consumable costs of \$1.3 million and other cost of service in the UK of \$0.8 million. This was partly offset by lower hardware costs of \$3.2 million due to lower hardware sales in the Greek and Colombian markets mitigating the higher hardware costs in the UK and ETG markets.

SG&A expenses increased by \$0.1 million to \$15.7 million, on a reported basis. Of this variance, \$0.9 million arose from adverse currency movements, partly offset by \$0.2 million due to fewer days in the period. This resulted in a like-for-like decrease of \$0.5 million driven by staff related cost savings.

An impairment expense in the period, considered to be outside of the normal course of business, amounted to \$4.7 million, due to the review of key strategic areas by the Office of the Executive Chairman.

Depreciation and amortization increased by \$7.8 million to \$34.1 million on a reported basis. Of this amount, \$1.9 million arose due to adverse currency movements, partially offset by \$0.3 million due to fewer days in the period. On a like-for-like basis, the increase was \$6.2 million, driven by \$4.5 million from additional amortization and \$1.7 million of additional machine and machine related depreciation. The additional amortization was driven by new projects going live in the UK, Greek and international markets. The additional machine and machine related depreciation was driven by the continued terminal rollout in the Greek and UK markets of \$2.3 million and \$0.9 million respectively. This was partly offset by lower depreciation in Italy (\$1.2 million) and Colombia (\$0.5 million) due to machines being fully depreciated and machine sales at the end of the prior period.

SBG operating profit decreased by \$1.8 million to \$22.7 million, on a reported basis. Of this variance, \$1.4 million arose from favorable currency movements, offset by a decrease of \$0.4 million due to there being fewer days in the period. On a like-for-like basis, SBG operating profit decreased by \$2.8 million. This was primarily due to the impairment expense and additional depreciation and amortization, offset by an increase in 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 Twelve-Month Period ended		Variance		Variance			
	September 30, 2018	September 30, 2017	2018 vs 2017		Currency Movement	Days Movement	Like-for-Like	Variance
<i>(In thousands)</i>								
<b>Service Revenue:</b>								
UK LBO	\$ 57,654	\$ 55,099	\$ 2,554	4.6%	\$ 3,210	(\$ 893)	\$ 237	0.4%
UK Other	6,217	5,389	827	15.4%	351	(98)	574	10.8%
Italy	9,689	8,337	1,352	16.2%	522	(122)	953	11.6%
Greece	18,574	3,360	15,213	452.7%	960	—	14,253	424.2%
Rest of the World	1,028	1,886	(859)	(45.5%)	59	(26)	(892)	(48.0%)
<b>Total service revenue</b>	<b>\$ 93,161</b>	<b>\$ 74,072</b>	<b>\$ 19,089</b>	<b>25.8%</b>	<b>\$ 5,103</b>	<b>(\$ 1,138)</b>	<b>\$ 15,124</b>	<b>20.7%</b>
<i>Exchange Rate - \$ to £</i>	<i>1.35</i>	<i>1.28</i>						

#### **Virtual Sports Segment, Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017**

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**

Virtual Sports	For the Twelve-Month Period ended			Variance 2018 vs 2017	%
	September 30, 2018	September 30, 2017			
No. of Live Customers at the end of the period	97	85		12	14.1%
Average No. of Live Customers	91	81		9	11.6%
Total Revenue (£'000)	£ 27,944	£ 26,312	£	1,632	6.2%
Total Revenue £'000 - Retail	£ 17,171	£ 16,357	£	814	5.0%
Total Revenue £'000 - Scheduled Online Virtuals	£ 8,048	£ 8,159	(£)	(111)	(1.4%)
Total Revenue £'000 - Interactive	£ 2,725	£ 1,796	£	928	51.7%
Average Revenue Per Customer per day (£)	£ 846	£ 875	(£)	(29)	(3.3%)

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.

**Virtual Sports segment, key events that affected results for the Twelve Months ended September 30, 2018**

During the period, the Pennsylvania Lottery deployed our Virtual Sports product in 9,000 venues within the state, 1,600 of which have monitors that display the product. Our Virtual Sports product was also rolled out to over 250 venues with Boylesports. The Irish sports betting venues continue to be some of our highest earning venues across the Virtual Sports estate.

Our Virtual Sports product in Greece was live during the full twelve-month period compared to approximately six months in fiscal year 2017. We are now live in over 3,400 OPAP retail venues.

During the period, our Virtual Sports revenue grew in the UK driven by incremental growth with a key customer with the network solution deployed in over 1,600 retail venues as well as in Poland through the retail venues and online channels of Fortuna (now deployed in over 400 retail venues), Central Europe’s largest betting operator. Under an agreement that extends to 2019, Fortuna customers in Poland are able to play Virtual Football (soccer), Virtual Horses, Virtual Greyhounds, Virtual Speedway and Virtual Motor Racing. We also launched Virtual Sports in Finland through the retail venues and online channels of Veikkaus, Finland’s national lottery.

In April 2018 we launched our Virgo™ RGS and premium omni-channel casino content in Italy with SNAI, and will soon launch with Sisal, Eurobet and Betsson’s StarCasino.

By the end of the period, our Interactive business was live with twenty-seven customers, having launched seventeen new customers since September 30, 2017, including Bet Victor, Aspire Global, White Hat Gaming, Casino Land, Casino777 and Netbet.

The Average Number of Live Customers during the period increased by nine, from 81 to 91, including new Interactive customers.

**Virtual Sports segment, key events that affected results for the Twelve Months ended September 30, 2017**

During 2017, our Virtual Sports products went live in Greece, through OPAP. As of September 30, 2017, OPAP offered our Virtual Sports product in all venues. The rollout initially focused on Virtual Football (soccer).

During 2017, our Virtual Sports products also went live in Poland, through the retail venues of Fortuna.



By the end of the period, our Interactive business was live with ten customers, having launched five new customers during the period, including Ladbrokes and NYX. The average number of Virtual Sports live customers increased by eight, from 73 to 81, in 2017, including new RGS customers. Average Revenue per Customer per Day for the year increased by £5, or 0.5%, from £870 to £875.

*Virtual Sports segment, Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017*

Virtual Sports <i>(In thousands)</i>	For the Twelve-Month Period ended				Variance		Like-for-Like Variance	
	September 30, 2018	September 30, 2017	Variance		Currency Movement	Days Movement		
	2018	2017	2018 vs 2017					
<b>Service Revenue</b>	\$ 37,763	\$ 33,424	\$ 4,339	13.0%	\$ 2,095	(\$ 424)	\$ 2,668	8.1%
Cost of Service	(4,626)	(4,157)	(469)	11.3%	(271)	60	(258)	6.3%
Selling, general and administrative expenses	(7,503)	(6,168)	(1,335)	21.6%	(414)	110	(1,031)	17.0%
Impairment expense	(2,964)	—	(2,964)	N/A	—	—	(2,964)	N/A
Stock-based compensation	(305)	(261)	(44)	16.9%	(17)	—	(27)	10.4%
Depreciation and amortization	(6,338)	(5,587)	(751)	13.4%	(435)	65	(382)	6.9%
<b>Net operating income</b>	<u>\$ 16,027</u>	<u>\$ 17,251</u>	<u>(\$ 1,224)</u>	<u>(7.1%)</u>	<u>\$ 959</u>	<u>(\$ 188)</u>	<u>(\$ 1,995)</u>	<u>(11.7%)</u>
<i>Exchange Rate - \$ to £</i>	<i>1.35</i>	<i>1.28</i>						

**Virtual Sports segment revenue.** In the period revenue increased by \$4.3 million on a reported basis. Of this increase, \$2.1 million arose from favorable currency movements, partly offset by \$0.4 million due to there being fewer days in the period. On a like-for-like basis, Virtual Sports revenue increased by \$2.7 million, or 8.1%, to \$37.8 million.

Of this \$2.7 million revenue increase, \$4.2 million was driven by an increase in Virtual Sports land-based and online recurring revenue, due to new customer revenue in Finland of \$0.5 million as well as continued growth in Greece, UK, Ireland, Poland and Italy of \$1.8 million, \$0.9 million, \$0.4 million, \$0.3 million and \$0.2 million, respectively. Interactive revenue increased by \$1.2 million from further penetration into the mobile market, where the number of our customers increased from ten to twenty-seven. Growth was negatively affected by \$1.7 million due to a reduction in revenue from long-term Virtual Sports licenses that have now come to an end, \$0.7 million due to a timing difference in the 2018 contract renewal of a major customer and \$0.5 million due to the recognition of revenues previously unreported to us in 2017.

**Virtual Sports segment operating income.** Cost of service increased by \$0.5 million to \$4.6 million, on a reported basis. Of this increase, \$0.3 million arose from adverse currency movements, offset by \$0.1 million due to there being fewer days in the period. On a like-for-like basis, cost of service increased by \$0.3 million, due to additional third-party costs payable on new recurring contracts.

SG&A expenses increased by \$1.3 million, on a reported basis. Of this increase, \$0.4 million arose from adverse currency movements, offset by \$0.1 million due to fewer days in the period. This resulted in a like-for-like increase of \$1.0 million, which was primarily due to lower labor capitalization driven by project mix.

An impairment expense in the period, considered to be outside of the normal course of business, amounted to \$3.0 million, on a reported basis, due to the review of key strategic areas by the Office of the Executive Chairman.

Depreciation and amortization increased by \$0.8 million to \$6.3 million, on a reported basis. Of this increase, \$0.4 million arose from adverse currency movements, offset by \$0.1 million due to fewer days in the period. This resulted in a like-for-like increase of \$0.4 million, driven by additional depreciation of platforms and games going live, including Tyson, World Leaders and Rush Bingo.

Operating profit decreased by \$1.2 million on a reported basis to \$16.0 million. Of this decrease, \$0.2 million arose due to there being fewer days in the period, partly offset by \$1.0 million arose from favorable currency movements. On a like-for-like basis, this represented a decrease of \$2.0 million. This was primarily due to the impairment expense and additional SG&A expenses, offset by an increase in revenue.

## 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 and integration, (2) merger and acquisition costs, (3) impairment expense and (4) 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.

**Incremental Costs since Closing of the Business Combination** is defined as the incremental costs incurred as a result of becoming a public company, shown to allow comparability to the prior periods when we were not a public company. These costs include costs associated with the public company's Board of Directors and its committees and advisors, the remuneration of those who became employed or received increases as a result of the Business Combination, SEC counsel costs and costs associated with PCAOB audit compliance.

**Constant Currency.** 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 constant currency, is calculated as the difference in our functional currency, multiplied by the prior-period average GBP: USD rate, as a proxy for constant currency movement.

**Currency Movement** represents the difference between the results in our reporting currency (USD) and the results on a Constant Currency basis.

**Days Movement** represents values relating to the additional six days in the 2017 half year as compared to the 2018 half year using specific information where available and otherwise applying a straight-line method that reflects pro-rated values.

**Like-for-Like Variance** represents the difference between the results in our reporting currency calculated under GAAP and the results after adjusting for Currency Movement and Days Movement impacts.

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*

<i>(In thousands)</i>	For the Twelve-Month Period ended		
	September 30, 2018	September 30, 2017	Adjusted Sept 30, 2017
Net loss	(\$ 20,596)	(\$ 49,114)	(\$ 48,196)
<b>Items Relating to Legacy Activities:</b>			
Pension charges	527	631	620
(Credit)/Costs relating to former operations	16	(65)	(57)
Litigation Settlement	260	—	—
<b>Items outside the normal course of business:</b>			
Costs of group restructure	2,786	2,447	2,447
Italian tax related costs	—	220	220
Transaction fees	864	11,411	11,411
Legal dispute	—	(107)	(107)
Stock-based compensation expense	7,424	4,235	4,235
Impairment expense	7,679	—	—
Depreciation and amortization	41,832	33,810	33,312
Total other expense, net	13,102	37,033	36,147
Income tax	182	184	184
<b>Adjusted EBITDA</b>	<b>\$ 54,076</b>	<b>\$ 40,686</b>	<b>\$ 40,217</b>
<b>Adjusted EBITDA</b>	<b>£ 40,151</b>	<b>£ 31,875</b>	<b>£ 31,508</b>
<i>Exchange Rate - \$ to £</i>	<i>1.35</i>	<i>1.28</i>	<i>1.28</i>

Notes to table:

(1) "Pension charges" are profit and loss charges included within selling, general and admin 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) "(Credit)/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 and any associated employer taxes. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save ongoing future costs.

(5) “Italian tax related costs” relate to VAT charges relating to prior years imposed on our Virtual Sports segment following changes in interpretation of legislation.

(6) Transaction fees, Impairment expense, 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.

(7) “Legal dispute” relates to the costs borne by the business in relation to a legal dispute with the Performing Rights Society, as described in Note 22 to the consolidated financial statements included in the 2017 10-K. A credit balance relates to a reduction in expected exposure. This affects Server Based Gaming results.

(8) The adjusted column restates the prior year figures based on a 365-day period rather than the actual 371-day period so as to show a like-for-like comparison.

#### Reconciliation to Adjusted Revenue

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.

	For the Twelve-Month Period ended		
	September 30, 2018	September 30, 2017	Adjusted September 30, 2017
<i>(In thousands)</i>			
<b>Net revenues</b>	\$ 141,381	\$ 122,544	\$ 120,982
Less Nil Margin Sales	(4,021)	(5,320)	(5,320)
<b>Adjusted Revenue</b>	<b>\$ 137,360</b>	<b>\$ 117,224</b>	<b>\$ 115,662</b>
<b>Adjusted Revenue</b>	<b>£ 101,760</b>	<b>£ 91,840</b>	<b>£ 90,616</b>
<i>Exchange Rate - \$ to £</i>	<i>1.35</i>	<i>1.28</i>	<i>1.28</i>

#### Liquidity and Capital Resources

Twelve Months ended September 30, 2018 compared to Twelve Months ended September 30, 2017

<i>(in thousands)</i>	Period Ended		Variance
	September 30, 2018	September 30, 2017	2018 to 2017
Net loss	(\$ 20,596)	(\$ 49,114)	\$ 28,518
Non-cash interest expense	6,752	17,213	(10,461)
Change in fair value of derivative and earnout liabilities and stock-based compensation expense	3,908	12,592	(8,684)
Impairment expense	7,679	—	7,679
Foreign currency translation on senior bank debt	(3,355)	—	(3,355)
Depreciation and amortization	41,832	33,810	8,022
Other net cash provided by operating activities	(2,004)	3,750	(5,754)
Net cash provided by operating activities	34,216	18,251	15,965
Net cash used in investing activities	(42,933)	(35,385)	(7,548)
Net cash provided by financing activities	11,153	34,555	(23,402)
Effect of exchange rates on cash	(13)	1,121	(1,134)
Net (decrease)/increase in cash and cash equivalents	<u>\$ 2,423</u>	<u>\$ 18,542</u>	<u>(\$ 16,119)</u>

**Net cash provided by operating activities.** In the period, net cash inflow generated by operating activities was \$34.2 million, compared to \$18.3 million in the prior period, representing \$16.0 million improvement in cash generation.

Non-cash interest expense decreased by \$10.5 million, to \$6.8 million, as a consequence of the Business Combination in the prior period. As part of that transaction, outstanding PIK loan notes were internalized and were subsequently waived on May 31, 2017. The related non-cash interest expense ceased to be an external charge to the Company from the date of the Business Combination leaving only the PIK interest being compounded on the senior debt as a non-cash interest expense. The refinancing of the Company and its subsidiaries (the "Group") on August 14, 2018 replaced the debt existing at the time of the transaction with a \$140.0 million facility which has no PIK interest element.

Change in fair value of derivative and earnout liabilities and stock-based compensation expense decreased by \$8.7 million from an inflow of \$12.6 million to an inflow of \$3.9 million. Movements in the market value of the stock price resulted in a \$18.9 million higher outflow in 2018 which was partly offset by a \$2.9 million movement in stock-based compensation expense and a \$7.4 million movement in the fair valuation of the cross-currency swaps executed in August 2018 on the new debt.

Impairment expense in the period totaled \$7.7 million, this being a one-off charge relating to the change in strategic direction of the group.

Foreign currency translation on senior bank debt resulted in a credit in the period of \$3.4 million as a result of the movement in exchange rates following the refinancing of the Group on August 14, 2018 and the period end.

Depreciation, amortization and impairment increased by \$8.0 million to \$41.8 million. The increase being largely attributable to higher amortization on development costs and licenses and higher depreciation on the machine estate.

Other net cash provided by operating activities decreased by \$5.8 million, to a \$2.0 million outflow. This decrease was largely due to movement in accounts payable of \$14.6 million, inventory of \$3.3 million and other creditors (both current and long term) of \$4.6 million. The relative movement in accounts payable reflects the different levels of build activity in the business at the start and end of each period, with the close of the prior period being part way through the roll out of machines for Greece. These were partly offset by the relative movements in accounts receivable of \$10.3 million and other current and long-term assets of \$7.1 million with the prior period long-term assets increasing significantly as a result of costs being prepaid relating to Greece.

**Net cash used in investing activities.** In the 2018 period, net cash used in investing activities increased by approximately \$7.5 million, to \$42.9 million. The increase was attributable to higher levels of spending relating to plant, property and equipment (\$10.1 million) due to the continued rollout of machines into Greece and the production of "Flex 4k"<sup>TM</sup> machines in the UK. This was partly offset by lower spending on capital software compared to the prior period.

**Net cash provided by financing activities.** In the 2018 period, net cash from financing activities decreased by \$23.4 million, to a \$11.2 million inflow. This was due to the prior period benefitting from a cash injection of \$16.7 million received following the Business Combination, and \$21.6 million of proceeds received from a private placement of common stock. During the current period, the refinancing of the Group benefitted cash flows by \$18.5 million.

#### **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 September 30, 2018, we had liquidity of \$22.5 million in cash and cash equivalents plus a further \$9.5 million of an undrawn revolver facility. This compares to \$20.0 million at the end of the prior period. We had a working capital inflow of \$0.7 million in 2018, compared to a \$3.7 million inflow in the prior period. 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 September 30, 2018, \$1.6 million of our \$22.5 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. See "Risk Factors – The capital controls imposed by Greece as a consequence of its financial crisis can cause problems for the transfer of our earnings out of Greece."

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 December 2019. 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.

### **Long Term and Other Debt**

<i>(In thousands)</i>	<b>September 30, 2018</b>		<b>September 30, 2017</b>	
Cash held	£ 17,216	\$ 22,451	£ 14,947	\$ 20,028
Revolver drawn	—	—	(5,500)	(7,369)
Original principal senior debt	(107,354)	(140,000)	(72,500)	(97,143)
Compounded PIK interest	—	—	(13,623)	(18,253)
PIK interest accrued	—	—	(496)	(664)
Cash interest accrued	(78)	(102)	(3,072)	(4,116)
Finance lease creditors	(416)	(543)	(816)	(1,094)
Total	<u>(£ 90,632)</u>	<u>(\$ 118,193)</u>	<u>(£ 81,060)</u>	<u>(\$ 108,612)</u>

During the period, the Company and certain of its subsidiaries entered into a series of transactions that effected the refinancing of the Group's external borrowings, replacing the Group'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 11 to the Consolidated Financial Statements, "Long Term and Other Debt".

As of September 30, 2018, 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 September 30, 2018, the Company had aggregate borrowings under the term loan facility of £107.4 million (equivalent to \$140.0 million). As of September 30, 2018, 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 September 30, 2018 was the equivalent of, 11.39% 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 September 30, 2017, the Company had bank facilities of £90.0 million (equivalent to approximately \$120.6 million), consisting of a senior term loan facility of £72.5 million (equivalent to \$97.1 million) and a revolving credit facility of £17.5 million (equivalent to approximately \$23.4 million). As of September 30, 2017, the Company had aggregate borrowings under the term loan facility of £72.5 million (equivalent to \$97.1 million). As of September 30, 2017, 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 September 30, 2017, 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 Group's external borrowings.

As of September 30, 2018, 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 September 30, 2017, the Company had aggregate borrowings under the revolving credit facility of £5.5 million (equivalent to \$7.4 million). As of September 30, 2017, 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 5.24% 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 Group'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 September 30, 2017 was \$0.2 million.

Debt issuance fees were capitalized at the time the debt was issued. As of September 30, 2018, the amount of debt issuance fees capitalized was \$8.8 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.

#### **Debt Covenants**

Under our debt facilities in place as of September 30, 2018, we are subject to covenant testing at quarterly intervals, with the first test date being that of September 30, 2018. The covenant testing is set at the level of Inspired Entertainment Inc., the ultimate holding company of the Group, 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 September 30, 2017, 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 September 30, 2017 were \$3.8 million, \$4.6 million and \$8.1 million.

There were no breaches of the debt covenants in the periods ended September 30, 2018 and September 30, 2017.

#### **Liens and Encumbrances**

As of September 30, 2018, 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 September 30, 2018, our contractual obligations were as follows:

<b>Contractual Obligations (in thousands)</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
<b>Operating activities</b>					
Interest on long term debt (net of cross currency swaps)	\$ 32,030	\$ 583	\$ 1,161	\$ 30,287	\$ —
<b>Financing activities</b>					
Senior bank debt - principal repayment	140,000	—	—	140,000	—
Cross currency swaps in respect of interest on long term debt	46,876	15,668	31,208	—	—
Finance lease payments	543	473	69	—	—
Interest on non-utilization fees	352	—	352	—	—
<b>Total</b>	<b>\$ 219,800</b>	<b>\$ 16,725</b>	<b>\$ 32,788</b>	<b>\$ 170,287</b>	<b>\$ —</b>

#### **Off-Balance Sheet Arrangements**

As of September 30, 2018, 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 7A. 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 September 30, 2018, 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 \$0.2 million. If the floating interest rates increased by 5%, the additional interest charge would be approximately \$3.6 million.

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 11 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 \$7.5 million and our US Dollar functional currency net liabilities total approximately \$147.1 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 September 30, 2018 would result in translation adjustments of approximately \$0.8 million and \$19.2 million, respectively, recorded in other comprehensive loss. Of the \$147.1 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 September 30, 2018 were €1.0 million and \$1.3 million, respectively. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of September 30, 2018 would result in translation adjustments of approximately \$0.1 million and \$0.1 million, respectively, recorded in trading operations.

The majority of the Group’s trading is in GBP, the functional currency, although the reporting currency of the Group is the US Dollar. As such, changes in the GBP: USD exchange rate have an effect on the Group’s results. A 10% weakening of GBP against the US Dollar would change the trading operational results by approximately \$1.6 million and would result in translation adjustments of approximately \$12.6 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 11 to the Consolidated Financial Statements, “Long Term and Other Debt”.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA.**

Our financial statements are set forth below following the signature page.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS.**

None.



## ITEM 9A. 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 Executive Chairman and our Chief Financial Officer (together, the "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 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 at September 30, 2018, the end of the period covered by this report.

### Management's Report on Internal Control Over Financial Reporting

As required by the SEC rules and regulations for the implementation of Section 404 of the Sarbanes-Oxley Act of 2002, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of consolidated financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect errors or misstatements in our consolidated financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting at September 30, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* (2013). Based on this assessment, management has concluded that our internal control over financial reporting was effective at September 30, 2018.

As an emerging growth company, the Company is not required to include in this report a report on the effectiveness of internal control over financial reporting by the Company's independent registered public accounting firm.

### 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.

## ITEM 9B. OTHER INFORMATION.

The Board of Directors of the Company has adopted the Inspired Entertainment Short-Term Incentive Bonus Plan for Fiscal Year 2018 (the "Plan"). The purpose of the Plan was to provide incentives to certain executive-level employees of the Company and its participating affiliates to contribute to the success of the Company for the fiscal year ended September 30, 2018. The Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has the power to grant awards under the Plan, and to determine the amount and timing of all bonus payments under the Plan.

Under the Plan, the Compensation Committee is to determine, for each Plan participant, a target bonus potential and a maximum bonus potential. The Plan components include company performance targets and individual performance targets. No bonuses would be paid under the Plan unless the Company's financial performance exceeds a minimum based on adjusted EBITDA, as approved by the Committee, and the specific amount paid, up to the amount of the maximum bonus potential, would be determined based on a formula, assessing Company financial performance metrics and the employee's success in meeting one or more pre-established objective individual performance targets. Amounts to be paid pursuant to the Plan would be paid on or before December 31, 2018.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before January 28, 2019, the information called for by this item will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

### ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before January 28, 2019, the information called for by this item will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before January 28, 2019, the information called for by this item will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before January 28, 2019, the information called for by this item will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before January 28, 2019, the information called for by this item will be filed as part of an amendment to this Annual Report on Form 10-K on or before such date.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of this report:

- (1) Financial Statements. The required consolidated financial statements and notes thereto are presented starting on page F-1 of this report.
- (2) Financial Statement Schedules. All financial statement schedules are omitted because they are not applicable or the amounts are immaterial and not required, or the required information is presented in the consolidated financial statements and notes thereto presented starting on page F-1 of this report.

(b) Exhibits. We hereby file as part of this report the exhibits listed below. Exhibits which are incorporated herein by reference can be obtained on the SEC website at [www.sec.gov](http://www.sec.gov).

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">2.1</a>	<a href="#">Share Sale Agreement, dated July 13, 2016, by and among Hydra Industries Acquisition Corp., the Vendors, Target Parent, DMWSL 632 Limited and Gaming Acquisitions Limited, incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed with the SEC on July 19, 2016.</a>
<a href="#">2.2</a>	<a href="#">Completion Arrangements Agreement, dated December 23, 2016, between Hydra Industries Acquisition Corp. and the Vendors listed in schedule 1 to the Share Sale Agreement, incorporated herein by reference to Exhibit 10.18 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016</a>
<a href="#">3.1</a>	<a href="#">Second Amended and Restated Certificate of Incorporation of Inspired Entertainment, Inc., incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.</a>
<a href="#">3.2</a>	<a href="#">Bylaws of Inspired Entertainment, Inc., incorporated herein by reference to Exhibit 3.3 of the Registration Statement on Form S-1 Company, filed with the SEC on August 19, 2014.</a>

- [3.3](#) [Certificate of Designation of the Series A Junior Participating Preferred Stock of the Company, dated August 14, 2017, incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Company, filed with the SEC on August 14, 2017.](#)
- [4.1](#) [Registration Rights Agreement, dated October 24, 2014, between Hydra Industries Acquisition Corp. and certain security holders, incorporated herein by reference to Exhibit 10.5 to the Current Report on Form 8-K of the Company, filed with the SEC on October 29, 2014.](#)
- [4.2](#) [Warrant Agreement, dated October 24, 2014, between Hydra Industries Acquisition Corp. and Continental Stock Transfer & Trust Company, incorporated herein by reference to Exhibit 4.6 to the Current Report on Form 8-K of the Company, filed with the SEC on October 29, 2014.](#)
- [4.3](#) [Registration Rights Agreement, dated December 23, 2016, by and among Hydra Industries Acquisition Corp. and the Vendors, incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.](#)
- [4.4](#) [Stockholders Agreement, dated December 23, 2016, by and among the Company, Hydra Industries Sponsor LLC, Macquarie Sponsor and the Vendors, incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.](#)
- [4.5](#) [Rights Agreement, dated as of August 13, 2017, by and between the Company and Continental Stock Transfer & Trust Company, as rights agent \(which includes the Form of Rights Certificate as Exhibit B thereto\), incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K of the Company, filed with the SEC on August 14, 2017.](#)
- [10.1](#) [Form of Director and Officer Indemnity Agreement, incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.](#)
- [10.2#](#) [Inspired Entertainment, Inc. 2016 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.3 to the Annual Report on Form 10-K of the Company, filed with the SEC on December 4, 2017.](#)
- [10.3#](#) [Inspired Entertainment, Inc. Second Long-Term Incentive Plan, as amended, incorporated herein by reference to Exhibit 10.5 to the Post-Effective Amendment to the Registration Statement on Form S-1 of the Company, filed with the SEC on December 29, 2017.](#)
- [10.4#](#) [Form of Grant Agreements under the Inspired Entertainment, Inc. 2016 Long-Term Incentive Plan and Second Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.17 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.](#)
- [10.5#](#) [Form of Grant Agreements for restricted stock units awards made to A. Lorne Weil and Daniel B. Silvers on December 21, 2017 under the Inspired Entertainment, Inc. Second Long-Term Incentive Plan, as amended as of December 13, 2017, incorporated herein by reference to Exhibit 10.7 to the Post-Effective Amendment to the Registration Statement on Form S-1 of the Company, filed with the SEC on December 29, 2017.](#)
- [10.6#\\*](#) [Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan](#)
- [10.7#\\*](#) [Form of Grant Agreement under the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan](#)
- [10.8#\\*](#) [Inspired Entertainment, Inc. 2018 Short-Term Incentive Bonus Plan.](#)
- [10.9#](#) [Employment Agreement, dated January 16, 2017 by and between Inspired Entertainment, Inc. and Lorne Weil, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 8, 2017.](#)
- [10.10#\\*](#) [Letter dated August 24, 2018 to A. Lorne Weil](#)
- [10.11#](#) [Employment Agreement, dated December 14, 2016, between Hydra Industries Acquisition Corp. and Daniel B. Silvers, incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of the Company, filed with the SEC on December 30, 2016.](#)
- [10.12#](#) [Amendment, dated December 22, 2017, to the Employee Agreement, dated December 14, 2016, between Hydra Industries Acquisition Corp. and Daniel B. Silvers, incorporated herein by reference to Exhibit 10.13 to the Post-Effective Amendment to the Registration Statement on Form S-1 of the Company, filed with the SEC on December 29, 2017.](#)

- [10.13#](#) [Service Agreement, dated March 18, 2009, by and between Inspired Gaming \(UK\) Limited and Steven Rogers, incorporated herein by reference to Exhibit 10.15 to the Quarterly Report on Form 10-QT of the Company, filed with the SEC on February 9, 2017.](#)
- [10.14#](#) [Amendment, dated April 29, 2010, to the Service Agreement, dated March 18, 2009, by and between Inspired Gaming \(UK\) Limited and Steven Rogers, incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Registration Statement on Form S-3 on Form S-1 of the Company, filed with the SEC on July 3, 2017.](#)
- [10.15#](#) [Employment Agreement, dated March 23, 2017, by and between Inspired Gaming \(UK\) Limited and Stewart Baker, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 8, 2017.](#)
- [10.16#](#) [Amendment, dated October 25, 2017, to Service Agreement dated March 23, 2017, by and between Inspired Gaming \(UK\) Limited and Stewart Baker, incorporated herein by reference to Exhibit 10.14 to the Annual Report on Form 10-K of the Company, filed with the SEC on December 4, 2017.](#)
- [10.17#](#) [Service Agreement, dated October 1, 2008, by and between Inspired Gaming \(UK\) Limited and Lee Gregory, incorporated herein by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 8, 2017.](#)
- [10.18#](#) [Amendment, dated July 6, 2010, to Service Agreement dated October 1, 2008, by and between Inspired Gaming \(UK\) Limited and Lee Gregory, incorporated herein by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 8, 2017.](#)
- [10.19#](#) [Letter, dated March 16, 2017 by and between Inspired Gaming \(UK\) Limited and Lee Gregory, incorporated herein by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 8, 2017.](#)
- [10.20#](#) [Employment Agreement, dated May 1, 2018, between Inspired Entertainment, Inc. and Brooks H. Pierce, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on August 14, 2018.](#)
- [10.21#](#) [Settlement Agreement, dated September 21, 2017, by and between Inspired Gaming \(UK\) Limited and David Wilson, incorporated herein by reference to Exhibit 10.19 to the Annual Report on Form 10-K of the Company, filed with the SEC on December 4, 2017.](#)
- [10.22#](#) [Settlement Agreement, dated September 21, 2017, by and between Inspired Gaming UK Limited and Steven Holmes, incorporated herein by reference to Exhibit 10.22 to the Annual Report on Form 10-K of the Company, filed with the SEC on December 4, 2017.](#)
- [10.23#](#) [Inspired Entertainment, Inc. Employee Stock Purchase Plan, incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of the Company, filed with the SEC on July 14, 2017.](#)
- [10.24#](#) [Non-Employee Director Compensation Policy \(adopted May 2017, as supplemented\), incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on August 7, 2017.](#)
- [10.25#](#) [Settlement Agreement, dated May 16, 2018, among Inspired Gaming \(Gibraltar\) Limited, DMWSL 633 Limited, Inspired Entertainment, Inc. and Luke L. Alvarez, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on August 14, 2018.](#)
- [10.26](#) [Note Purchase Agreement and Guaranty dated as of August 13, 2018, among Gaming Acquisitions Limited, Inspired Entertainment, Inc., Certain Subsidiaries of the Issuer, Various Purchasers and Cortland Capital Market Services LLC, as Note Agent and Collateral Agent, incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed with the SEC on August 14, 2018.](#)
- [10.27](#) [Revolving Facility Agreement dated August 13, 2018, among Inspired Entertainment, Inc., the Parties Listed as Original Borrowers, the Parties Listed as Original Guarantors, Lloyds Bank PLC and Cortland Capital Market Services LLC, as Security Agent, incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company, filed with the SEC on August 14, 2018.](#)
- [21.1\\*](#) [Subsidiaries of the Company.](#)
- [23.1\\*](#) [Consent of Marcum LLP.](#)
- [31.1\\*](#) [Section 302 Certification of Principal Executive Officer.](#)

[31.2\\*](#) [Section 302 Certification of Principal Financial Officer.](#)

[32.1\\*\\*](#) [Section 906 Certification of Principal Executive Officer.](#)

[32.2\\*\\*](#) [Section 906 Certification of Principal Financial Officer.](#)

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Schema

101.CAL\* XBRL Taxonomy Calculation Linkbase

101.DEF\* XBRL Taxonomy Definition Linkbase

101.LAB\* XBRL Taxonomy Label Linkbase

101.PRE\* XBRL Taxonomy Presentation Linkbase

# Indicates management contract or compensatory plan.

\* Filed herewith.

\*\* Furnished herewith.

**ITEM 16. FORM 10-K SUMMARY.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: December 10, 2018

By: /s/ A. Lome Weil

A. Lome Weil  
Executive Chairman  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: December 10, 2018

/s/ A. Lome Weil

A. Lome Weil, Executive Chairman

Dated: December 10, 2018

/s/ Stewart F.B. Baker

Stewart F.B. Baker, Chief Financial Officer  
(Principal Financial and Accounting Officer)

Dated: December 10, 2018

/s/ M. Alexander Hoyer

M. Alexander Hoyer, Director

Dated: December 10, 2018

/s/ Ira H. Raphaelson

Ira H. Raphaelson, Director

Dated: December 10, 2018

/s/ Desirée G. Rogers

Desirée G. Rogers, Director

Dated: December 10, 2018

/s/ Steven M. Saferin

Steven M. Saferin, Director

Dated: December 10, 2018

/s/ John M. Vandemore

John M. Vandemore, Director

**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

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<a href="#"><u>Consolidated Balance Sheets</u></a>	F-2
<a href="#"><u>Consolidated Statements of Operations and Comprehensive Loss</u></a>	F-3
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
Inspired Entertainment, Inc. and Subsidiaries

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Inspired Entertainment, Inc. and Subsidiaries (the "Company") as of September 30, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders' deficit and cash flows for each of the periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the periods ended September 30, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

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

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

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2016.

Melville, NY  
December 10, 2018



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

	September 30,	
	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 22,451	\$ 20,028
Accounts receivable, net	14,302	20,469
Inventory, net	5,210	5,011
Fair value of hedging instrument	747	—
Prepaid expenses and other current assets	15,842	17,692
<b>Total current assets</b>	<b>58,552</b>	<b>63,200</b>
Property and equipment, net	45,707	43,485
Software development costs, net	39,998	46,433
Other acquired intangible assets subject to amortization, net	5,723	9,240
Goodwill	45,818	47,076
Other assets	12,114	9,589
<b>Total assets</b>	<b>\$ 207,912</b>	<b>\$ 219,023</b>
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 14,400	\$ 20,407
Accrued expenses	14,354	18,119
Earmout liability	8,021	—
Corporate tax and other current taxes payable	2,047	3,134
Deferred revenue, current	9,194	7,209
Other current liabilities	3,851	4,420
Current portion of long-term debt	—	7,369
Current portion of capital lease obligations	474	562
<b>Total current liabilities</b>	<b>52,341</b>	<b>61,220</b>
Long-term debt	131,225	115,396
Capital lease obligations, net of current portion	69	532
Deferred revenue, net of current portion	23,946	20,144
Earmout liability, net of current portion	—	16,728
Derivative liability	7,764	964
Other long-term liabilities	5,034	6,368
<b>Total liabilities</b>	<b>220,379</b>	<b>221,352</b>
<b>Commitments and contingencies (See Note 25)</b>		
<b>Stockholders' deficit</b>		
Preferred stock; \$0.0001 par value; 1,000,000 shares authorized	—	—
Series A Junior Participating Preferred stock; \$0.0001 par value; 49,000 shares designated; no shares issued and outstanding at September 30, 2018 and 2017		
Common stock; \$0.0001 par value; 49,000,000 shares authorized; 20,860,591 shares and 20,402,602 shares issued and outstanding at September 30, 2018 and 2017, respectively	2	2
Additional paid in capital	328,452	323,429
Accumulated other comprehensive income	58,580	53,145
Accumulated deficit	(399,501)	(378,905)
<b>Total stockholders' deficit</b>	<b>(12,467)</b>	<b>(2,329)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 207,912</b>	<b>\$ 219,023</b>

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

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

	<b>For the Period Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue:</b>		
Service	\$ 130,924	\$ 107,496
Hardware	10,457	15,048
<b>Total revenue</b>	<b>141,381</b>	<b>122,544</b>
<b>Cost of sales, excluding depreciation and amortization:</b>		
Cost of service	(22,601)	(15,845)
Cost of hardware	(8,179)	(10,839)
Selling, general and administrative expenses	(60,114)	(58,301)
Stock-based compensation expense	(7,424)	(4,235)
Impairment expense	(7,679)	—
Acquisition related transaction expenses	(864)	(11,411)
Depreciation and amortization	(41,832)	(33,810)
<b>Operating loss</b>	<b>(7,312)</b>	<b>(11,897)</b>
<b>Other income (expense)</b>		
Interest income	205	55
Interest expense	(20,648)	(29,358)
Change in fair value of earnout liability	8,707	(7,127)
Change in fair value of derivative liability	(5,500)	(385)
Other finance income (costs)	4,134	(218)
<b>Total other expense, net</b>	<b>(13,102)</b>	<b>(37,033)</b>
<b>Net loss before income taxes</b>	<b>(20,414)</b>	<b>(48,930)</b>
Income tax expense	(182)	(184)
<b>Net loss</b>	<b>(20,596)</b>	<b>(49,114)</b>
<b>Other comprehensive income:</b>		
Foreign currency translation gain	273	18,697
Change in fair value of hedging instrument	261	—
Reclassification of gain on hedging instrument to comprehensive income	(308)	—
Actuarial gains on pension plan	5,209	1,343
<b>Other comprehensive income</b>	<b>5,435</b>	<b>20,040</b>
<b>Comprehensive loss</b>	<b>\$ (15,161)</b>	<b>\$ (29,074)</b>
<b>Net loss per common share – basic and diluted</b>	<b>\$ (0.99)</b>	<b>\$ (2.68)</b>
<b>Weighted average number of shares outstanding during the period – basic and diluted</b>	<b>20,754,549</b>	<b>18,296,480</b>

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

**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
(in thousands, except share data)

	<u>Common stock</u>		<u>Additional paid in capital</u>	<u>Accumulated other comprehensive income</u>	<u>Accumulated deficit</u>	<u>Total stockholders' deficit</u>
	<u>Shares</u>	<u>Amount</u>				
<b>Balance as of September 24, 2016</b>	11,801,369	\$ 1	\$ 614	\$ 33,105	\$ (329,791)	\$ (296,071)
Foreign currency translation adjustments	—	—	—	18,697	—	18,697
Actuarial gains on pension plan	—	—	—	1,343	—	1,343
Shares issued in Merger	8,412,097	1	326,237	—	—	326,238
Earmout liability related to Merger (see Note 15)	—	—	(9,575)	—	—	(9,575)
Sale of common stock	164,536	—	1,645	—	—	1,645
Stock-based compensation expense	24,600	—	4,508	—	—	4,508
Net loss	—	—	—	—	(49,114)	(49,114)
<b>Balance as of September 30, 2017</b>	<u>20,402,602</u>	<u>2</u>	<u>323,429</u>	<u>53,145</u>	<u>(378,905)</u>	<u>(2,329)</u>
Foreign currency translation adjustments	—	—	—	273	—	273
Actuarial gains on pension plan	—	—	—	5,209	—	5,209
Change in fair value of hedging instrument	—	—	—	261	—	261
Reclassification of gain on hedging instrument to comprehensive income	—	—	—	(308)	—	(308)
Shares issued on exercise of warrants	50	—	1	—	—	1
Shares issued upon net settlement of RSUs and RSAs	457,939	—	(1,043)	—	—	(1,043)
Reclassification of RSUs from derivative liability due to stockholder approval of Second Incentive Plan	—	—	2,848	—	—	2,848
Reclassification of RSUs to derivative liability due to modification	—	—	(1,482)	—	—	(1,482)
Stock-based compensation expense	—	—	4,699	—	—	4,699
Net loss	—	—	—	—	(20,596)	(20,596)
<b>Balance as of September 30, 2018</b>	<u>20,860,591</u>	<u>\$ 2</u>	<u>\$ 328,452</u>	<u>\$ 58,580</u>	<u>\$ (399,501)</u>	<u>\$ (12,467)</u>

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

**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>For the Period Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (20,596)	\$ (49,114)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	41,832	33,810
Stock-based compensation expense	7,115	4,235
Impairment expense	7,679	—
Change in fair value of derivative liability	5,500	385
Change in fair value of earnout liability	(8,707)	7,127
Foreign currency translation on senior bank debt	(3,355)	—
Initial classification of fair value of derivative liability	—	845
Non-cash interest expense relating to PIK loan notes	—	9,179
Non-cash interest expense relating to senior debt	6,752	6,846
Non-cash interest expense relating to financing fee amortization	—	1,188
Changes in assets and liabilities:		
Accounts receivable	5,340	(4,566)
Inventory	(448)	2,737
Prepaid expenses and other assets	1,207	(5,952)
Corporate tax and other current taxes payable	(1,869)	(1,809)
Accounts payable	(4,054)	10,497
Other current liabilities	(69)	61
Deferred revenues and customer prepayment	6,498	6,831
Accrued expenses	(2,809)	(611)
Other long-term liabilities	(5,800)	(3,438)
<b>Net cash provided by operating activities</b>	<b>34,216</b>	<b>18,251</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(24,837)	(15,117)
Purchases of capital software	(18,096)	(20,268)
<b>Net cash used in investing activities</b>	<b>(42,933)</b>	<b>(35,385)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of revolver and long-term debt	140,000	—
Repayments of finance leases	(544)	(557)
Repayments of revolver and long-term debt	(123,734)	(3,197)
Payment of financing costs	(4,569)	—
Cash received in connection with Merger	—	36,664
Proceeds from sale of common stock	—	1,645
<b>Net cash provided by financing activities</b>	<b>11,153</b>	<b>34,555</b>
Effect of exchange rate changes on cash	(13)	1,121
Net increase in cash	2,423	18,542
Cash, beginning of period	20,028	1,486
<b>Cash, end of period</b>	<b>\$ 22,451</b>	<b>\$ 20,028</b>
<b>Supplemental cash flow disclosures</b>		
Cash paid during the period for interest	\$ 16,723	\$ 10,503
Cash paid during the period for income taxes	\$ 7	\$ 356
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Additional paid in capital from net settlement of RSUs	\$ (1,043)	\$ —
Additional paid in capital reclassified to derivative liability	\$ (1,482)	\$ —
Additional paid in capital reclassified from derivative liability	\$ 2,848	\$ —
Derivative liability reclassified to accrued expenses	\$ 126	\$ —
Fair value adjustment of PIK shareholder loans	\$ —	\$ 174,990
Property and equipment acquired through capital lease	\$ —	\$ 1,208
Senior debt exit premium	\$ 4,200	\$ —

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

**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
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**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 Virtual Sports (which includes Interactive) and Server Based Gaming ("SBG") 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"), by and among the Company and those persons identified on Schedule 1 to the Sale Agreement, including DMWSL 633 Limited. Pursuant to the Sale Agreement, the Company acquired all of the outstanding equity and shareholder loan notes of Inspired. We refer to such acquisition and to the other transactions contemplated by the Sale Agreement, collectively, as the "Business Combination" or the "Merger."

***Management Liquidity Plans***

As of September 30, 2018, the Company's cash on hand was \$22,451 and the Company had working capital of \$6,211. As of September 30, 2018, \$1,637 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 \$20,596 and \$49,114 for the periods ended September 30, 2018 and 2017, respectively. The net losses arose principally from non-cash items, including stock-based compensation, impairment expense, and, in the 2017 period, from interest on shareholder loan notes that are 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 \$6,211 includes non-cash settled items of \$8,021 for earnout liability and \$9,194 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 December 2019.

***Basis of Presentation***

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

Following the Merger, the Company changed its reporting year end from a 52-week period ending on the last Saturday in September to a September 30 year end, commencing with the year ending September 30, 2017. Accordingly, the period ended September 30, 2017 includes the results of operations for the Company for the period from September 25, 2016 through September 30, 2017.

The Company's fiscal year will change to a December 31 year end commencing in 2019. The Company intends to file a transition report on Form 10-Q, covering the transition period of October 1, 2018 to December 31, 2018, following the conclusion of that transition period.

***Principles of Consolidation***

All monetary values set forth in these consolidated financial statements are in U.S. Dollars ("USD") unless otherwise stated herein. The accompanying 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 U.S. Dollar. 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 and interest income (expense) in the consolidated statements of operations and comprehensive loss.

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***Use of Estimates***

The preparation of 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.

***Cash***

We deposit cash with financial institutions that management believes are of high credit quality. Financial instruments that potentially subject the Company to concentration of credit risk consist of a cash account in a financial institution which, at times may exceed the Federal depository insurance coverage of \$250. At September 30, 2018 and 2017, the Company had not experienced losses on this account and management believes the Company is not exposed to significant risks on such account. Substantially all of the Company's cash is held outside of the U.S.

***Accounts Receivable***

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Changes in circumstances relating to the collectability of accounts receivable may result in the need to increase or decrease our allowance for doubtful accounts in the future. We determine the allowance based on historical experience, current market trends, and our customers' financial condition. We continually review our allowance for doubtful accounts. Past due balances and other higher risk amounts are reviewed individually for collectability. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

Under certain contracts, the timing of our invoices does not coincide with revenue recognized under the contract. We have unbilled accounts receivable which represent revenue recorded in excess of amounts invoiced under the contract and generally become billable at contractually specified dates. These amounts consist primarily of revenue from our share of net winnings earned on a daily basis where the billing period does not fall on the last day of the period. We had \$10,771 and \$9,542, of unbilled accounts receivable as of September 30, 2018 and September 30, 2017, respectively.

Our standard credit terms are net 30 to 60 days. From time to time, we allow for certain digital customers to pay on an enhanced revenue share basis for the software license whereby the customer pays an incremental revenue share percentage over a specific period of time. We consider these types of arrangements to be extended payment terms as the full consideration for the arrangement may not be received until several years after the date of the sale depending on the net winnings from the game or application.

***Inventories***

Inventories consist primarily of component parts and related parts used in gaming terminals. Inventories are stated at the lower of cost or net realizable value, using the weighted average cost method. We determine the lower of cost or net realizable value of our inventory based on estimates of potentially excess and obsolete inventories after considering historical and forecasted demand and average selling prices. Demand for gaming terminals and parts inventory is also subject to technological obsolescence. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

***Property and Equipment***

Property and equipment are recorded at cost, and when placed into service, depreciated and amortized to their residual values using the straight-line method over the estimated useful lives of the related assets as follows:

Leasehold property	Shorter of the useful life or the life of the lease
Server based gaming terminals	4 – 6 years
Motor Vehicles	3 – 5 years
Plant and machinery and fixtures and fittings	4 – 8 years
Computer equipment	3 – 5 years

Our policy is to periodically review the estimated useful lives of our fixed assets. We also assess the recoverability of long-lived assets (or asset groups) whenever events or changes in circumstances indicate that the carrying amount of such an asset (or asset groups) may not be recoverable.

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Repairs and maintenance costs are expensed as incurred. Upon retirement or sale, the cost of assets disposed and the related accumulated depreciation are written off and any resulting gain or loss is credited or charged to income.

***Software Development Costs***

We classify software development costs as either internal use software or external use software. We account for costs incurred to develop internal use software in accordance with Accounting Standards Codification (“ASC”) ASC 350-40, Internal Use Software. Consequently, any costs incurred during preliminary project stages are expensed; direct costs incurred during the application development stages are capitalized; and costs incurred during the post-implementation/operation stages are expensed. Once the software is placed in operation, we amortize the capitalized internal use software cost over its estimated economic useful life, which range from two to five years.

We purchase, license and incur costs to develop external use software to be used in the products we sell or provide to customers. Such costs are capitalized under ASC 985-20, Costs of Software to Be Sold Leased or Marketed. Costs incurred in creating software are expensed when incurred as Selling, General and Administrative Expenses until technological feasibility has been established, after which costs are capitalized up to the date the software is available for general release to customers. We capitalize the payments made for software that we purchase or license for use in our products that has previously met the technological feasibility criteria prior to our purchase or license. Annual amortization of capitalized external use software development costs is recorded over the estimated economic life, which is two to five years.

Research and development costs are expensed as incurred. Research and development related primarily to software product development costs is expensed until technological feasibility has been established. Research and development costs amounting to \$4,816 and \$5,237 were expensed during the periods ended September 30, 2018 and 2017, respectively. Employee related costs associated with related product development are included in Selling, General and Administrative Expenses in the consolidated statements of operations and comprehensive loss.

***Goodwill and Other Acquired Intangible Assets***

Our principal acquired intangible assets relate to goodwill, trademarks and customer relationships. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Trademarks and customer relationships were originally recorded at their fair values in connection with business combinations.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives are amortized on a straight-line basis over three to ten years to their estimated residual values, and reviewed for impairment. Factors considered when assigning useful lives include legal, regulatory and contractual provisions, product obsolescence, demand, competition and other economic factors.

***Impairment of Goodwill and Long Lived Assets***

We test for goodwill impairment at least annually on the last day of our fiscal period, and whenever other facts and circumstances indicate that the carrying value may not be recoverable. For goodwill impairment evaluations, we first make a qualitative assessment to determine if goodwill is likely to be impaired. If it is more-likely-than-not that a reporting unit’s fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. Goodwill is carried, and therefore tested, at the reporting unit level. We have two segments, Server Based Gaming and Virtual Sports, as detailed in Note 27. If the fair value of the reporting unit is less than its carrying amount, the amount of the impairment loss, if any, will be measured by comparing the implied fair value of goodwill to its carrying amount and would be charged to operations as an impairment loss. A qualitative test was carried out as of September 30, 2018 and 2017 and no impairment was required at either date.

We assess the recoverability of long-lived assets and intangible assets with finite useful lives whenever events arise or circumstances change that indicate the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets (or asset groups) to be held and used is measured by a comparison of the carrying amount of the asset (or asset group) to the expected net future undiscounted cash flows to be generated by that asset (or asset group) or, for identifiable intangibles with finite useful lives, by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through expected net future undiscounted cash flows. The amount of impairment of other long-lived assets and intangible assets with finite lives is measured by the amount by which the carrying amount of the asset exceeds the fair market value of the asset. As a result of the Company’s change in strategic direction of certain of its operations, the Company determined that certain of its long-lived and other assets were impaired as of September 30, 2018. Accordingly, the Company recorded an impairment charge of \$7,679 for the period ended September 30, 2018, which consisted of \$4,913 of software, \$1,922 of prepaid expenses and other current assets, \$577 of unbilled accounts receivable and \$267 of trade receivables. .

***Deferred Revenue and Deferred Cost of Sales, excluding depreciation and amortization***

Deferred revenue arises from the timing differences between the shipment or installation of gaming terminals and systems products and the satisfaction of all revenue recognition criteria consistent with our revenue recognition policy, as well as prepayment of contracts which are recognized ratably over a service period, such as maintenance or licensing fees. Deferred cost of sales, excluding depreciation and amortization, recorded as prepaid expenses and other assets, consists of the direct costs associated with the manufacture of gaming equipment and systems products for which revenue has been deferred. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue in current liabilities. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue, net of current portion.

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***Debt Issue Costs***

Debt issuance costs incurred in connection with the Company's debt are capitalized and amortized as interest expense over the term of the related debt. The Company presents debt issuance costs as a reduction from the carrying amount of debt.

***Value Added Tax***

The Company is subject to Value Added Tax ("VAT") in some locations. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods and services sold less VAT paid on purchases made with the relevant supporting invoices. VAT is collected from customers by the Company on behalf of the tax authorities and is therefore not charged to the consolidated statements of operations.

***Common Stock Purchase Warrants and Derivative Financial Instruments***

The Company reviews any common stock purchase warrants and other freestanding derivative financial instruments at each balance sheet date and classifies them on the consolidated balance sheet as:

- a) Equity if they (i) require physical settlement or net-share settlement, or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement), or
- b) Assets or liabilities if they (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company's control), or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assesses classification of its common stock purchase warrants and other freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its outstanding common stock purchase warrants satisfied the criteria for classification as equity instruments at September 30, 2018 and 2017. The Company also determined that its obligation to settle certain awards in either cash or stock satisfied the criteria for classification as a derivative financial instrument at September 30, 2018 and 2017 (see Note 13).

From time to time we enter into foreign currency forward contracts to mitigate the risk associated with cash payments required to be made in non-functional currencies or to mitigate the risk associated with cash to be received in non-functional currencies.

***Accounting Policy for Derivative Instruments and Hedging Activities***

FASB ASC 815, Derivatives and Hedging ("ASC 815"), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, "Fair Value Measurements," the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.



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***Revenue Recognition***

We derive revenue principally from the sale and rental of our SBG terminals and related services, including content provision and servicing, to regulated retail betting outlets, casinos and other gaming operators, and licensing of our Virtual Sports gaming software and related services to regulated virtual sports retail, mobile and online operators. We evaluate the recognition of revenue based on the criteria set forth in ASC 605, Revenue Recognition (“ASC 605”) and ASC 985-605, Software-Revenue Recognition. Revenue is recognized when all of the following criteria are met:

1. Persuasive evidence of an arrangement exists
2. The price to the customer is fixed or determinable
3. Delivery has occurred, title has been transferred, and any acceptance terms have been fulfilled; and
4. Collectability is probable

For our multiple-deliverable arrangements which include hardware containing software that functions together with the hardware to deliver its essential functionality and undelivered non-software services, deliverables are separated into more than one unit of accounting when: (i) the delivered element(s) have value to the customer on a stand-alone basis and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. When the final undelivered element(s) are non-software services and non-hardware, those deliverables are recognized on a ratable basis over the remaining term of the arrangement.

We determine the relative selling price for deliverables in the scope of ASC 605 based on the following selling price hierarchy:

1. Vendor specific objective evidence (“VSOE”), (i.e., the price we charge when the product or service is sold separately) if available,
2. Third-party evidence (“TPE”) of fair value (i.e., the price charged by others for similar products and services) if VSOE is not available,
3. or our best estimate of selling price (“BESP”) if neither VSOE nor TPE is available.

Our multiple-deliverable arrangements may also contain one or more software deliverables in the scope of ASC 985-605. The revenue for these multiple-deliverable arrangements is allocated to the software deliverables and the non-software deliverables based on the relative selling prices of all of the deliverables in the arrangement using the fair value hierarchy outlined above. In circumstances where the Company cannot determine VSOE or TPE of the selling price for any of the deliverables in the arrangement, BESP is used for the purpose of allocating the arrangement consideration between software and non-software deliverable.

Revenue is allocated to the software deliverables based on the relative fair value of each element, and fair value is determined using VSOE. Where VSOE does not exist for the undelivered software element, revenue is deferred until either the undelivered element is delivered or VSOE is established, whichever occurs first. When the final undelivered software element is services, the related revenue is recognized on a ratable basis over the remaining service period. When VSOE of a delivered element has not been established, but VSOE exists for the undelivered elements, the Company uses the residual method to recognize revenue when the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement consideration is allocated to the delivered elements and is recognized as revenue.

In addition to the general policies, the following are the specific revenue recognition policies for our revenue streams:

**Server Based Gaming**

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 605 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 rental fee. We recognize revenue from these arrangements 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.

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 on a straight-line basis over the term of the arrangement or when not specified over the expected customer relationship period. 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. Hardware sales take the form of a transfer of ownership of our developed gaming terminals, and are recognized upon delivery as they have value to our customers on a stand-alone basis.

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Virtual Sports

Revenue from licensing of our gaming software is recognized in accordance with the criteria set forth in ASC 985-605. 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 on a daily or weekly basis over the term of the arrangement. These arrangements typically include a perpetual license billed up front, granted to the customer for access to our gaming platform and content. As we do not have VSOE for the undelivered elements in virtual sports arrangements, revenue from the licensing of perpetual licenses is recognized on a straight-line basis over the term of the arrangement, 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 on delivery and acceptance by the customer. We have no ongoing service obligations subsequent to customer acceptance of our bespoke games.

***Shipping and Handling Costs***

Shipping and handling costs for products sales and hardware related to subscription services are included in cost of sales, excluding depreciation and amortization for all periods presented.

***Share-Based Payment Arrangements***

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"). ASC 718 requires generally that all equity awards be accounted for at their "fair value." This fair value is measured on the grant date for stock-settled awards, and at subsequent exercise or settlement for cash-settled awards. Fair value is equal to the underlying value of the stock for "full-value" awards such as restricted stock and restricted stock units that have time vesting conditions, and stock options and performance shares that have market conditions are valued using an option-pricing model with traditional inputs for "appreciation" awards.

Costs equal to these fair values are recognized ratably over the requisite service period based on the number of awards that are expected to vest, or in the period of grant for awards that vest immediately and have no future service condition. For awards that vest over time, previously recognized compensation cost is reversed if the service or performance conditions are not satisfied and the award is forfeited.

Subsequent modifications to outstanding awards result in incremental cost if the fair value is increased as a result of the modification.

***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.

Significant management judgment is required to assess the likelihood that deferred tax assets will be recovered from future taxable income. In assessing the realizability of these deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Management makes this assessment on a jurisdiction by jurisdiction basis considering the historical trend of taxable losses, projected future taxable income and the reversal of deferred tax liabilities.

We evaluate income tax uncertainties, assess the probability of the ultimate settlement with the applicable taxing authority and records an amount based on that assessment. Interest and penalties, if any, associated with uncertain tax positions are included in income tax expense.

***Comprehensive Loss***

We include and separately classify in comprehensive loss unrealized gains and losses and hedges from our foreign currency translation adjustments, gains or losses associated with pension or other post-retirement benefits, prior service costs or credits associated with pension or other post-retirement benefits and transition assets or obligations associated with pension or other post-retirement benefits.

***Leases***

We lease our office facilities under operating leases. We account for certain operating leases that contain rent escalation provisions, rent abatements and/or lease incentives by recognizing rent expense on a straight-line basis over the lease term. The difference between the rent paid and the straight-line rent is recorded as a deferred liability.

Assets acquired under capital leases are amortized over a lease term which coincides with the estimated useful life of the leased assets. For the purpose of recognizing the above-mentioned lease incentives on a straight-line basis over the term of the lease, we use the date of initial possession to begin amortization. Lease renewal periods are considered in the determination of the lease term.

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***Recently Issued Accounting Standards***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (ASC 606), “Revenue from Contracts with Customers,” which was subsequently modified in August 2015 by ASU No. 2015-14, “Revenue from Contracts with Customers: Deferral of the Effective Date” (“ASU 2014-09”). As a result, ASU No. 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Company will adopt the standard on January 1, 2019 using the modified retrospective method. Based upon an ongoing review of contracts to date, nothing has come to our attention that would result in a material cumulative-effect adjustment to opening equity. In 2016 and 2017, the FASB issued additional ASUs that clarify the implementation guidance on principal versus agent considerations (ASU 2016-08), on identifying performance obligations and licensing (ASU 2016-10), and on narrow-scope improvements and practical expedients (ASU 2016-12), as well as on the revenue recognition criteria and other technical corrections (ASU 2016-20, ASU 2017-13 and ASU 2017-14).

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). In September 2017, the FASB issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)”, which provides additional implementation guidance on the previously issued ASU 2016-02. ASU 2016-02 increases transparency and comparability among organizations by reporting lease assets and lease liabilities, both finance (capital) and operating leases, on the balance sheet and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU 2018-10, “Leases (Topic 842), Codification Improvements,” and ASU 2018-11, “Leases (Topic 842), Targeted Improvements.” ASU 2018-10 clarifies certain provisions and correct unintended applications of the guidance such as the application of implicit rate, lessee reassessment of lease classification, and certain transition adjustments that should be recognized to earnings rather than to stockholders’ equity. ASU 2018-11 provides an alternative transition method and practical expedient for separating contract components for the adoption of Topic 842. For non-public companies, the updated guidance is effective for the financial statements issued for fiscal years beginning after December 15, 2019 (and interim periods within fiscal years beginning after December 15, 2020). Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for annual periods beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. ASU 2016-15 provides for retrospective application for all periods presented. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740)” (“ASU 2016-16”), which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted using a modified retrospective transition approach. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business” (“ASU 2017-01”). The amendments in ASU 2017-01 is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 eliminates Step 2 along with amending other parts of the goodwill impairment test. Under ASU 2017-04, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual periods beginning after December 15, 2021, and interim periods therein with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. At adoption, this update will require a prospective approach. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

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In March 2017, the FASB issued ASU 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). The new guidance requires companies with sponsored defined benefit pension and/or other postretirement benefit plans to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs. The other components of net periodic benefit cost will be presented separately and not included in operating income. In addition, only service costs are eligible to be capitalized as an asset. ASU 2017-07 will be effective for fiscal years beginning after December 15, 2018, including interim periods within annual periods beginning after December 15, 2019, and the guidance will generally be applied retroactively, whereas the capitalization of the service cost component will be applied prospectively. Early adoption is permitted with all of the amendments adopted in the same period. If an entity early adopts the guidance in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 provides clarity and reduces both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for all annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-09 is not expected to have any impact on the Company’s financial presentation or disclosures.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception” (“ASU 2017-11”). ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity’s own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. ASU 2017-11 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The adoption of ASU 2017-11 is not expected to have any impact on the Company’s financial statement presentation or disclosures.

In August 2017, the FASB issued ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”) to simplify the application of hedge accounting guidance and improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, ASU 2017-12 requires an entity to present the earnings effect of the hedged item in the same income statement line item in which the earnings effect of the hedging instrument is reported. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2019. This adoption method requires companies to recognize the cumulative effect of initially applying the guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”) which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. The transition method provided by ASU 2018-07 is a modified retrospective basis which recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements and related disclosures.

## **2. Merger**

On the Closing Date, Hydra and Inspired consummated the Merger contemplated by the Sale Agreement which provided for, among other things, the acquisition of all of the outstanding equity and shareholder loan notes of Inspired by Hydra pursuant to the Merger. In connection with the Merger, Hydra issued 11,815,435 shares of common stock to the prior owners of Inspired.

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Immediately following the Merger, there were 20,213,466 shares of common stock outstanding and warrants to purchase 9,539,615 shares of common stock.

The shares and corresponding equity amounts and net loss per share, pre-Merger, have been retroactively restated as shares reflecting the exchange ratio in the Merger.

**3. Accounts Receivable**

Accounts receivable consist of the following:

	September 30, 2018	September 30, 2017
Trade receivables	\$ 17,791	\$ 25,527
Less: long term receivable recorded in other assets	(2,209)	(3,235)
Other receivables	103	135
Allowance for doubtful accounts	(1,383)	(1,958)
<b>Total accounts receivable, net</b>	<b>\$ 14,302</b>	<b>\$ 20,469</b>

Changes in the allowance for doubtful accounts are as follows:

	September 30, 2018	September 30, 2017
Beginning balance	\$ (1,958)	\$ (340)
Provision for doubtful accounts	(1,109)	(1,597)
Recoveries	487	—
Write offs	1,120	—
Foreign currency translation adjustments	77	(21)
<b>Ending balance</b>	<b>\$ (1,383)</b>	<b>\$ (1,958)</b>

**4. Inventory**

Inventory consists of the following:

	September 30, 2018	September 30, 2017
Component parts	\$ 3,647	\$ 4,100
Finished goods	1,563	911
<b>Total inventories</b>	<b>\$ 5,210</b>	<b>\$ 5,011</b>

Component parts include parts for gaming terminals. Included in component parts are reserves for excess and slow-moving inventory of \$469 and \$419 for the periods ended September 30, 2018 and 2017, respectively. Our finished goods inventory primarily consists of gaming terminals which are ready for sale.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other assets consist of the following:

	September 30, 2018	September 30, 2017
Prepaid expenses and other assets	\$ 5,071	\$ 8,150
Unbilled accounts receivable	10,771	9,542
<b>Total prepaid expenses and other assets</b>	<b>\$ 15,842</b>	<b>\$ 17,692</b>

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**6. Property and Equipment**

	September 30, 2018	September 30, 2017
Short-term leasehold property	\$ 361	\$ 371
Video lottery terminals	121,760	105,525
Computer equipment	8,685	8,428
Plant and machinery	2,508	3,358
	<u>133,314</u>	<u>117,682</u>
Less: accumulated depreciation and amortization	(87,607)	(74,197)
	<u>\$ 45,707</u>	<u>\$ 43,485</u>

Depreciation and amortization expense for the periods ended September 30, 2018 and 2017 was \$20,324 and \$18,378, respectively. Cost of equipment associated with specific contracts and internal use software projects are recorded as assets in the course of construction (a subsection of video lottery terminals) and not depreciated until placed in service. When the equipment is placed into service, the related costs are transferred from assets in the course of construction to video lottery terminals, and we commence depreciation. Depreciation expense is separately included within depreciation and amortization expense on the consolidated statements of operations and comprehensive loss.

**7. Software Development Costs, net**

Software development costs, net consisted of the following:

	September 30, 2018	September 30, 2017
Software development costs	\$ 100,856	\$ 89,468
Less: accumulated amortization	(60,858)	(43,035)
	<u>\$ 39,998</u>	<u>\$ 46,433</u>

During the periods ended September 30, 2018 and 2017, the Company capitalized \$17,740 and \$20,103, respectively, of software development costs. Amounts above in the table include \$1,335 and \$2,676 of internal use software at September 30, 2018 and 2017, respectively.

The total amount of software costs amortized was \$18,118 and \$10,876 for the periods ended September 30, 2018 and 2017, respectively. The total amount of software costs written down to net realizable value was \$5,391 and \$1,327 for the periods ended September 30, 2018 and 2017, respectively, of which \$478 and \$1,327 is recorded as amortization expense, which was incurred in the normal course of business, and \$4,913 and \$0 is recorded as impairment expense, which was recorded as a one-time expense, for the periods ended September 30, 2018 and 2017, respectively. The weighted average amortization period was 3.1 and 3.2 years for the periods ended September 30, 2018 and 2017, respectively.

The estimated software amortization expense for the periods ending September 30 are as follows:

**Fiscal period ending September 30,**

2019	\$ 15,006
2020	12,498
2021	7,460
2022	3,641
2023	1,248
Thereafter	145
Total	<u>\$ 39,998</u>

**8. 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.

	September 30, 2018	September 30, 2017
Trademarks	\$ 17,635	\$ 18,119
Customer relationships	15,071	15,485
	<u>32,706</u>	<u>33,604</u>
Less: accumulated amortization	(26,983)	(24,364)
	<u>\$ 5,723</u>	<u>\$ 9,240</u>

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The aggregate intangible asset amortization expense for the periods ended September 30, 2018 and 2017 amounted to \$3,390 and \$3,183, respectively.

The estimated intangible asset amortization expense for the periods ending September 30 are as follows:

**Fiscal period ending September 30,**

2019	\$	3,270
2020		2,453
<b>Total</b>	<b>\$</b>	<b>5,723</b>

**Goodwill**

The difference in the carrying amount of goodwill at September 30, 2018 and 2017 (amounting to \$1,258), as reported in the accompanying consolidated balance sheets, is attributable to foreign currency translation adjustments.

**9. Other Assets**

Other assets consist of the following:

	September 30, 2018	September 30, 2017
Pension surplus	\$ 5,257	\$ —
Long term receivables	2,209	3,235
Long term prepaid expenses and other assets	4,648	6,354
	<u>\$ 12,114</u>	<u>\$ 9,589</u>

**10. Accrued Expenses**

Accrued expenses consist of the following:

	September 30, 2018	September 30, 2017
Direct costs of sales	\$ 4,450	\$ 6,038
Accrued corporate cost expenses	3,167	2,257
Asset retirement obligations	571	40
Interest payable - cash	102	4,116
Interest payable – payment in kind	—	664
Other creditors	6,064	5,004
	<u>\$ 14,354</u>	<u>\$ 18,119</u>

**11. Other Liabilities**

Other liabilities consist of the following:

	September 30, 2018	September 30, 2017
Customer prepayments and deposits	\$ 3,719	\$ 4,346
Fair value of hedging instrument	132	—
Foreign exchange contract liabilities	—	74
<b>Total other liabilities, current</b>	<u>3,851</u>	<u>4,420</u>
Other payables, net of current portion	511	2,079
Asset retirement obligation	323	866
Senior debt exit premium	4,200	—
Pension liability	—	3,423
<b>Total other liabilities, long-term</b>	<u>5,034</u>	<u>6,368</u>
	<u>\$ 8,885</u>	<u>\$ 10,788</u>

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**12. Long Term and Other Debt**

***Outstanding Debt and Capital Leases***

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

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

	<b>Principal</b>	<b>Unamortized deferred financing charge</b>	<b>Book value, September 30, 2017</b>
Senior bank debt	\$ 122,765	\$ —	\$ 122,765
Capital leases and hire purchase contract	1,094	—	1,094
<b>Total long-term debt outstanding</b>	<b>123,859</b>	<b>—</b>	<b>\$ 123,859</b>
Less: current portion of long-term debt	(7,931)	—	(7,931)
<b>Long-term debt, excluding current portion</b>	<b>\$ 115,928</b>	<b>\$ —</b>	<b>\$ 115,928</b>

Long term debt for the years ending September 30 matures as follows:

<b>Fiscal period</b>	<b>Senior bank debt</b>	<b>Capital leases and hire purchase contract</b>	<b>Total</b>
2019	\$ —	474	474
2020	—	69	69
2021	—	—	—
2022	—	—	—
2023	140,000	—	140,000
Total	<u>\$ 140,000</u>	<u>543</u>	<u>140,543</u>

**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 (the “Group”), replacing the Group’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). As described in further detail below, 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, as described in further detail below.

***Note Purchase Transaction***

On August 13, 2018, Gaming Acquisitions Limited (“Gaming Acquisitions”), an indirect wholly owned subsidiary of the Company, certain subsidiaries of the Company (collectively, the “Subsidiary Guarantors” and together with Gaming Acquisitions and the Company, the “Credit Parties”) and the Company entered into a Note Purchase Agreement and Guaranty (the “Note Purchase Agreement”) to provide for the issuance and sale of promissory notes in the aggregate principal amount of \$140,000,000, maturing in five years (the “Notes”), to the purchasers party thereto from time to time, including HG Vora Special Opportunities Master Fund, Ltd. (“HGV Fund”), with Cortland Capital Market Services LLC acting as note and collateral agent for the Purchasers (in such capacity, “Agent”).



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The proceeds of the sale of the Notes were used to, among other things, repay £98.5 million of obligations outstanding under the Company's Senior Term and Revolving Facility Agreement dated March 18, 2014 (as amended and restated July 13, 2016), among certain subsidiaries of the Company, Ares Management Limited and Lloyds Bank PLC (the "Existing Credit Facility"). The Existing Credit Facility has been replaced in part by the Revolving Credit Facility described below.

The obligations under the Note Purchase Agreement are unconditionally guaranteed on a joint and several basis by each of the Company and the Subsidiary Guarantors party thereto and are secured on a first-priority basis (subject to certain exceptions) by a lien granted to the Agent for the benefit of the secured parties under the Note Purchase Agreement on substantially all of the assets of each Credit Party, including all of the capital stock held by such Credit Party. An intercreditor agreement will set forth the rights and obligations of the parties to the Note Purchase Agreement, the Revolving Credit Facility and the Nomura Swap described below, in and to the proceeds of the collateral securing the obligations under the Note Purchase Agreement, the Revolving Credit Facility and the Nomura Swap.

The Notes were issued at 98% of the par value thereof. Interest on the Notes accrue on a daily basis and bear an interest rate equal to, at the Credit Parties' option, a base rate or LIBOR rate, plus an applicable margin, which for a base rate borrowing is 8% per annum and for a LIBOR borrowing is 9% per annum. The base rate is calculated based on the greatest of the prime rate, federal funds effective rate and LIBOR rate in effect on the date of calculation. Interest on the Notes is payable in cash (subject to extension in the case of the first interest payment due thereunder as provided in the Note Purchase Agreement) and at the maturity of the Notes in the case of any unpaid interest then outstanding.

Subject to certain conditions, voluntary prepayments are permitted under the Note Purchase Agreement.

Subject to certain exceptions, Gaming Acquisitions is required to make mandatory prepayments of the Notes in respect of amounts received on account of asset sales, insurance or condemnation proceeds and issuances of debt as well as amounts constituting excess cash flows. In the case of proceeds from asset sales and insurance or condemnation payments, so long as no event of default has occurred and to the extent such proceeds do not exceed \$1,000,000, Gaming Acquisitions may invest such proceeds—directly or through one of its subsidiaries—in assets of the general type useful in the business of the Company and its subsidiaries. In the case of amounts constituting excess cash flow, Gaming Acquisitions is required to prepay an amount equal to 50% thereof, except that 25% thereof shall be required if the total leverage ratio, as defined in the Note Purchase Agreement, is between 2.50:1.00 and 2.00:1.00 (in each case, minus voluntary repayments made during the applicable fiscal year), and no such prepayment shall be required if the total leverage ratio is 2.00:1.00 or less.

In the event the Notes are redeemed, repaid or prepaid (including as voluntary or mandatory prepayments described above), such repayments or prepayments shall be made together with a payment premium equal to 3.00% of the amount repaid or prepaid, except that such premium will not be payable in the case of mandatory prepayments made on account of insurance or condemnation proceeds or excess cash flows (and either no prepayment penalty or a reduced prepayment premium shall be payable in the case of prepayments made with the proceeds of certain related VAT amounts). In the case of repayments of all or any portion of the Notes on or after the maturity date, such repayment will be made together with an exit premium equal to 3.00% of the amount so repaid. The Company has accrued a \$4,200 exit premium as of September 30, 2018 (see Note 11).

The Note Purchase Agreement contains customary representations and warranties and affirmative covenants applicable to Gaming Acquisitions, the Company and the subsidiaries of the Company and also contains certain restrictive covenants, including, among others, limitations on: the incurrence of additional debt; provided, however, that Gaming Acquisitions is permitted to incur indebtedness under the Revolving Credit Facility (in an aggregate principal amount not to exceed £7,500,000), liens on property (except those securing the Revolving Credit Facility or certain hedging indebtedness), acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of the Company's capital stock, prepayments of certain debt, transactions with affiliates and modifications of the Credit Parties' organizational documents and certain debt agreements. The Note Purchase Agreement requires quarterly compliance with maximum leverage and fixed charge coverage ratios as well as a minimum liquidity covenant. The agreement also includes customary event of default provisions.

The Notes are currently listed on the International Stock Exchange of the Channel Islands and shall remain listed until the repayment of the Notes in full in accordance with the terms of the Note Purchase Agreement.

HGV Fund currently holds approximately 95% of the Notes. As disclosed in stock ownership filings with the Securities and Exchange Commission pursuant to Section 16 under the Securities Act of 1934, HGV Fund owns approximately 17.5% of the Company's outstanding common stock as well as warrants to purchase shares of the Company's common stock. HGV Fund is also a stockholder and investor in Leisure Acquisition Corp., a special purpose acquisition company affiliated with two members of the Company's management.

#### *Revolving Credit Facility*

Concurrently with the issuance of the Notes and repayment of the Existing Credit Facility, Gaming Acquisitions, the Company and the Subsidiary Guarantors entered into a Revolving Credit Facility Agreement (the "Revolving Credit Facility Agreement") to provide for a £7,500,000 revolving facility from Lloyds Bank PLC (the "Revolving Facility Lender") to be used for general corporate, working capital and capital expenditure purposes of the Company and its subsidiaries (the "Revolving Credit Facility"), with the Agent acting as security agent for the Revolving Facility Lender (in such capacity, the "RCF Security Agent").

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The obligations under the Revolving Credit Facility are guaranteed on a joint and several basis by each of Gaming Acquisitions, the Company and certain Subsidiary Guarantors party thereto and are secured on a first-priority basis (subject to certain exceptions) by a lien granted to the RCF Security Agent for the benefit of the Revolving Facility Lender on substantially all of the assets of each Credit Party, including all of the capital stock held by such Credit Party. Certain Subsidiary Guarantors acceded to the Revolving Credit Facility Agreement within 30 days of closing.

The Revolving Credit Facility requires cash interest payments on outstanding borrowings equal to a margin of 4.00% per annum, plus LIBOR, on the last day of each applicable interest period. In addition, a commitment fee is payable every three months with respect to unutilized lending commitments thereunder at a rate of 35% of the margin applicable to such unutilized commitments per annum. The Revolving Credit Facility is scheduled to mature on August 13, 2021. Subject to certain conditions, voluntary prepayments are permitted under the Revolving Credit Facility and mandatory prepayments are required in the event of a change of control and/or the sale of all or substantially all assets of the Credit Parties.

The Revolving Credit Facility contains customary representations and warranties and affirmative covenants applicable to Gaming Acquisitions, the Company and the Company's subsidiaries and also contains certain restrictive covenants, including, among others, limitations on: the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of the Company's capital stock, prepayments of certain debt, transactions with affiliates and modifications of the Credit Parties' organizational documents and certain debt agreements. The Revolving Credit Facility requires quarterly compliance with maximum leverage and fixed charge coverage ratios as well as a minimum liquidity covenant. The agreement also contains customary event of default provisions.

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

#### **2017 Senior Bank Debt**

At September 30, 2017, debt consisted of senior bank debt. Security over the debt consisted of a fixed and floating charge over all assets of the Company and certain of its subsidiaries.

The senior bank facility had a cash interest rate on outstanding borrowings for this line of credit being the Bank of England's bank's base rate plus the base rate margin or LIBOR rate plus the bank's LIBOR rate margin. The loan agreement included a PIK interest rate on the outstanding borrowings that could be paid for or added to the outstanding debt.

The senior bank debt also included a revolving facility commitment for \$22,822 (£17,500). The revolver facility had an interest rate on used amounts of 5% plus LIBOR and on unused borrowings of 2%.

#### **PIK Shareholder Loans**

In connection with the Merger, the value of PIK shareholder loan notes was reduced from \$290,154 to \$115,254. Accordingly, the Company recorded \$174,990 as a capital contribution in the accompanying consolidated statement of stockholders' equity representing the reduction in the value of the PIK shareholder loan notes. The shareholders transferred their rights to the remaining loan balance of \$115,254 to Hydra in connection with the Merger, and therefore the \$115,254 was eliminated in consolidation. The \$115,254 was also accounted for as a capital contribution by the stockholders. These amounts are recorded in the consolidated statements of stockholders' equity in shares issued in Merger. On May 31, 2017, the PIK shareholder loan notes were cancelled and are therefore no longer outstanding.

### **13. Derivatives and Hedging Activities**

In connection with the Note Purchase Agreement Gaming Acquisitions entered into a three (3) year, fixed-rate, cross-currency swap which swaps the principal and interest payments that will be payable in US Dollars (USD) under the Note Purchase Agreement to Euros (EUR), in part, and Pounds Sterling (GBP), in part. The swap is provided by Nomura (the "Nomura Swap"). Specifically, with respect to the principal payments under the Note Purchase Agreement, Gaming Acquisitions will swap 1/3 of such principal payments from USD to EUR and 2/3 of such principal payments from USD to GBP. Additionally, with respect to the interest payments under the Note Purchase Agreement, Gaming Acquisitions will swap 1/3 of such interest payments from USD to GBP and 2/3 of such interest payments from USD to EUR. The Nomura Swap provides for a foreign exchange rate of \$1.13935 USD per €1 EUR and \$1.27565 USD per £1 GBP.

The obligations under the Nomura Swap are unconditionally guaranteed on a joint and several basis by each of Gaming Acquisitions, the Company and Subsidiary Guarantors and are secured on a first-priority basis (subject to certain exceptions) by a lien granted to the Agent for the benefit of Nomura on substantially all of the assets of each Credit Party, including all of the capital stock held by such Credit Party.

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**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, the British Pound.

**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, the British Pound. 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. During 2018, the Company estimates that during the year ended September 30, 2019, \$1.7 million will be reclassified as a reduction to interest expense.

As of 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:

<b>Foreign Currency Derivative</b>	<b>Number of Instruments</b>	<b>Pay Fixed Notional</b>	<b>Receive Floating Notional</b>
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 September 30, 2018, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships:

<b>Foreign Currency Derivative</b>	<b>Number of Instruments</b>	<b>Pay Fixed Notional</b>	<b>Receive Floating Notional</b>
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 September 30, 2018.

	<b>Balance Sheet Classification</b>	<b>Asset Derivatives Fair Value</b>	<b>Balance Sheet Classification</b>	<b>Liability Derivatives Fair Value</b>
<b>Derivatives designated as hedging instruments:</b>				
	Fair Value of Hedging Instruments		Derivative Liability	
Interest Rate and Foreign Exchange Products		\$ 747		\$ (3,442)
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 747</b>		<b>\$ (3,442)</b>
<b>Derivatives not designated as hedging instruments:</b>				
	Fair Value of Hedging Instruments		Derivative Liability	
Interest Rate and Foreign Exchange Products		\$ —		\$ (4,450)
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ —</b>		<b>\$ (4,450)</b>



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The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income as of September 30, 2018

	<b>Amount of Gain Recognized in Other Comprehensive Income on Derivative</b>		<b>Location of Gain Reclassified from Accumulated Other Comprehensive Income into Income</b>
Interest Rate and Foreign Exchange Products	\$ 261	Interest Expense Foreign Currency Remeasurement	\$ 30 278
Total	<u>\$ 261</u>		<u>\$ 308</u>

The table below presents the effect of the Company's derivative financial instruments on the consolidated income statements as of September 30, 2018.

	<b>Interest Expense</b>	<b>Foreign Currency Remeasurement</b>
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	<u>\$ 20,648</u>	<u>\$ 20,648</u>
Gain on cash flow hedging relationships in Subtopic 815-20	<u>\$ 30</u>	<u>\$ 278</u>

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 September 30, 2018.

<b>Derivatives Not Designated as Hedging Instruments under Subtopic 815-20</b>	<b>Location of Loss Recognized in Income on Derivative</b>	<b>Amount of Loss Recognized in Income on Derivative</b>
Interest Rate and Foreign Exchange Products	Change in fair value of derivative liability	\$ (7,372)

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

September 30, 2018

	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset in the Statement of Financial Position</b>	<b>Net Amounts of Assets presented in the Statement of Financial Position</b>	<b>Gross Amounts Not Offset in the Statement of Financial Position</b>		
				<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	<b>Net Amount</b>
Fair value of hedging instrument	<u>\$ 747</u>	<u>\$ —</u>	<u>\$ 747</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

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

As of 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 (\$7,145). As of September 30, 2018, 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 September 30, 2018, it could have been required to settle its obligations under the ISDA Agreement at its termination value of \$10,534.

**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 using 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	September 30, 2018	September 30, 2017
Earmout liability (see Note 15)	3	\$ 8,021	\$ 16,728
Derivative liability (see Notes 13 and 16)	2	\$ 7,764	\$ 964
Long term receivable (included in other assets)	2	\$ 2,209	\$ 3,235
Foreign exchange contract liability (included in other current liabilities)	2	\$ —	\$ 74

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

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

At September 30, 2018 and 2017, 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 ending 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 preliminary determination of the EBITDA results for such fiscal year with respect to the Earnout Jurisdictions, the number of shares issuable as Earnout Consideration was estimated to be 1,314,896 shares of common stock, and will be issued by December 31, 2018.

In accordance with ASC 815, "Derivatives and Hedging" ("ASC 815"), the earnout shares are not considered indexed to the Company's own stock and therefore are accounted for as a liability with fair value changes being recorded in the consolidated statements of operations and comprehensive loss. Prior to September 30, 2018, the fair value of the Earnout Consideration was calculated using a Monte Carlo simulation to estimate the variance and relative risk of achieving future EBITDA during the Earnout Period in the Earnout Jurisdictions. The Earnout Consideration was valued at \$8,021 and \$16,728 at September 30, 2018 and 2017, respectively.

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, 2017	\$ 16,728
Change in fair value of earnout liability	(8,707)
Balance – September 30, 2018	<u>\$ 8,021</u>

The final amount for settlement of the earnout liability will be determined by December 31, 2018.

**16. Derivative Liability**

The Company's Board of Directors adopted the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (the "Third Incentive Plan") in September 2018 subject to the approval by the Company's stockholders, and approved initial grants of restricted stock units ("RSUs") thereunder to members of management and other participants in the aggregate amount of 534,188 shares contingent on approval by the Company's stockholders. These awards of RSUs 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 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.

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In addition, the awards of RSUs that were granted under the Company's Second Long-Term Incentive Plan ("Second Incentive Plan") prior to approval by the Company's stockholders, which was obtained in March 2018, were initially classified as a derivative liability due to the Company's obligation to settle those awards in cash in the event stockholders did not approve the plan. The awards under the Second Incentive Plan included RSUs approved at the time of the Merger and RSUs approved in December 2017 for the Company's Executive Chairman and Chief Strategy Officer in connection with the cancellation of awards of restricted stock they received under the Company's 2016 Long-Term Incentive Plan (the "First Incentive Plan") (see Note 18). The awards of RSUs to such executives under the Second Incentive Plan were considered a modification that resulted in the original classification of their awards as an equity instrument being switched to a liability instrument, and in \$1,482 of previously recognized compensation expense being reclassified from additional paid in capital to derivative liability. The derivative liability associated with awards under the Second Incentive Plan was eliminated upon stockholder approval, and the liability was reclassified to additional paid in capital at the fair value amount of \$2,848 during the year ended September 30, 2018.

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

**17. Stockholders' Deficit**

***Preferred Stock***

The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of \$0.0001 per share in one or more series. The Company's Board of Directors is authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. At September 30, 2018 and 2017, there were no shares of preferred stock issued or outstanding.

***Series A Preferred Stock***

On August 13, 2017, in connection with the "stockholder rights plan" discussed below, the Company's Board of Directors approved a Certificate of Designation of Series A Junior Participating Preferred Stock, which designates the rights, preferences and privileges of 49,000 shares of a series of the Company's preferred stock, par value \$0.0001 per share, designated as Series A Junior Participating Preferred Stock (the "Series A Preferred Stock"). The Certificate of Designation was filed with the Delaware Secretary of State and became effective on August 14, 2017.

Each share of Series A Preferred Stock, if issued, will not be redeemable, and will entitle the holder thereof to cumulative quarterly dividend payments equal to the greater of (1) \$1.00 or (2) 1,000 times the aggregate per share amount of all cash dividends, plus 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of common stock of the Company. Each share of Series A Preferred Stock shall entitle the holder to 1,000 votes on all matters submitted to a vote of shareholders. The Series A Preferred Stock will entitle the holder thereof to receive \$1,000 per share, plus any accrued and unpaid dividends thereon, upon liquidation and, if shares of common stock are exchanged via merger, consolidation or a similar transaction, will entitle the holder thereof to a per share payment equal to \$1,000 per share.

The Series A Preferred Stock will rank junior to all other series of preferred stock as to the payment of dividends and the distribution of assets, whether or not upon the dissolution, liquidation or winding up of the Company.

***Stockholder Rights Plan***

On August 13, 2017, the Board of Directors of the Company adopted a stockholder rights plan and declared a distribution of one right ("Right") for each outstanding share of the Company's common stock to stockholders of record at the close of business on August 25, 2017 (the "Record Date"). Each Right entitles its holder, under the circumstances described below, to purchase from the Company one one-thousandth of a share of Series A Preferred Stock of the Company at an exercise price of \$45.00 per Right, subject to adjustment. The terms of the Rights are set forth in a Rights Agreement, dated as of August 13, 2017 (the "Rights Agreement"), by and between the Company and Continental Stock Transfer & Trust Company, as rights agent. The Rights Agreement was approved by the Company's stockholders at the Company's annual meeting held on March 7, 2018.

The Rights are transferable with and only with the underlying shares of common stock. New Rights will attach to any shares of common stock that become outstanding after the Record Date and prior to the earlier of the distribution time and the expiration time.

Subject to certain exceptions, the Rights become exercisable and trade separately from the common stock only upon the "distribution time," which occurs upon the earlier of:

- the close of business on the tenth day after the first date (the "stock acquisition date") of public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right or obligation to acquire, beneficial ownership of 20% or more of the outstanding shares of common stock, including in the form of synthetic ownership through derivative positions (any such person or group of affiliated or associated persons being referred to herein as an "acquiring person") or
- the close of business on the tenth business day (or later date if determined by the Company's Board of Directors prior to such time as any person or group becomes an acquiring person) following the commencement of a tender offer or exchange offer which, if consummated, would result in a person or group becoming an acquiring person.



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The Rights are not exercisable until the distribution time.

Unless earlier redeemed or exchanged by the Company as described below, the Rights will expire at the close of business on August 12, 2020.

In the event that a person or group becomes an acquiring person (a “flip-in event”), each holder of a Right (other than any acquiring person and certain related parties, whose Rights automatically become null and void) will have the right to receive, upon exercise, common stock having a value equal to two times the exercise price of the Right. If an insufficient number of shares of common stock is available for issuance, then the Company’s board of directors would be required to substitute cash, property or other securities of the Company for common stock. The Rights may not be exercised following a flip-in event while the Company has the ability to cause the Rights to be redeemed.

In general, the Company may redeem the Rights in whole, but not in part, at a price of \$0.01 per Right (subject to adjustment and payable in cash, common stock or other consideration deemed appropriate by the Company’s Board of Directors) at any time until ten days following the stock acquisition date. Immediately upon the action of the Board of Directors authorizing any redemption, the Rights will terminate and the only right of the holders of Rights will be to receive the redemption price.

At any time after there is an acquiring person and prior to the acquisition by the acquiring person of 50% or more of the outstanding shares of common stock, the Company may exchange the Rights (other than Rights owned by the acquiring person which will have become void), in whole or in part, at an exchange ratio of one share of common stock, or one one-thousandth of a share of Series A Preferred Stock (or of a share of a class or series of the Company’s preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

Until a Right is exercised, its holder will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

#### ***Common Stock***

The Company is authorized to issue 49,000,000 shares of common stock, par value \$0.0001 per share. Holders of the Company’s common stock are entitled to one vote for each common share.

#### ***Warrants***

As of September 30, 2018, the Company has 19,079,130 outstanding warrants to purchase an aggregate of 9,539,565 shares of the Company’s common stock, which includes 7,999,900 warrants originally issued as part of the initial public offering (the “IPO”) (the “Public Warrants”) and 11,079,230 warrants issued in private placements in connection with the IPO and the Merger (the “Private Placement Warrants”). Each warrant entitles its holder to purchase one-half of one share of the Company’s common stock at an exercise price of \$11.50 per whole share and will expire on December 23, 2021. The warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. The warrants became exercisable 30 days after the Closing Date. The Company may redeem the Public Warrants at a price of \$0.01 per warrant if the last sale price of the common stock equals or exceeds \$24.00 per share for any 20 trading days within a 30-trading day period. The Company may not redeem the Private Placement Warrants so long as they are held by the initial purchaser or such purchasers’ permitted transferees; if held by other persons, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

#### **18. Stock-Based Compensation**

The Company’s First Incentive Plan and Second Incentive Plan were adopted by the Company’s Board of Directors in connection with the Merger and approved by the Company’s stockholders in December 2016 and March 2018, respectively. These plans authorize the issuance of an aggregate of 4,078,818 shares pursuant to awards of restricted stock (“RSAs”), RSUs, stock options and other equity-related awards thereunder. As of September 30, 2018, there were 2,450,588 shares subject to outstanding awards, including approximately 1.1 million subject to market-price vesting conditions, and 1,065,899 shares available for new awards. A further 2,550,000 shares have been reserved for issuance under the Third Incentive Plan, which was adopted by the Board of Directors in September 2018 subject to stockholder approval. The plans are administered by the Compensation Committee which has broad discretion to determine eligibility, vesting schedule and other terms subject to the requirements of the applicable plans.

The Company also has an employee stock purchase plan (“ESPP”) that authorizes the issuance of up to an aggregate of 500,000 shares of common stock pursuant to purchases thereunder by employees. The ESPP, which was approved by stockholders in July 2017, is administered by the Compensation Committee which has discretion to designate the length of offering periods and other terms subject to the requirements of the plan. The Company has conducted only one offering period under the ESPP which occurred in 2017 during which eligible participants were able to purchase up to 500 shares at a discounted purchase price equal to 85% (and 80% for non-U.S. participants) of the lower of the fair market values of the stock as of the beginning and end of the period. A total of 24,600 shares were purchased during the offering period in 2017. As of September 30, 2018, a total of 475,400 shares remain available for purchase under the ESPP. The Company recognized \$88 of compensation expense related to the ESPP during the period ended September 30, 2017.

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The Company's stock-based awards under the foregoing plans, including awards of RSAs and RSUs and purchase rights under the ESPP, are recognized in the financial statements based on their fair value. The awards that were granted with market-price vesting conditions were valued using a Monte Carlo simulation method, and the awards that were granted with service-based vesting conditions were valued at the market value of the Company's common stock on the grant date.

A summary of the Company's RSA activity during the year ended September 30, 2018 is as follows:

	<b>Number of Shares</b>
Unvested Outstanding at September 30, 2017	2,012,445
Granted	—
Forfeited	(1,076,272)
Vested	(312,057)
Unvested Outstanding at September 30, 2018	624,116

A summary of the Company's RSUs activity during the year ended September 30, 2018 is as follows:

	<b>Number of Shares</b>
Unvested Outstanding at September 30, 2017	738,854
Granted	1,330,766
Forfeited	(10,351)
Vested	(329,778)
Unvested Outstanding at September 30, 2018	1,729,491

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 modification of certain awards held by two executive officers of the Company in December 2017 resulted in \$2,105 of incremental compensation cost being recognized as of the modification date.

The Company recognized stock-based compensation expense as follows:

	<b>Period Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
RSAs and RSUs	\$ 5,009	\$ 4,099
Modification of awards	2,105	—
Payroll taxes on vesting of RSUs	310	—
	\$ 7,424	\$ 4,099

Total unrecognized compensation expense related to unvested stock awards and unvested RSUs at September 30, 2018 amounts to \$9,844 and is expected to be recognized over a weighted average period of 1.3 years.

**19. Accumulated Other Comprehensive Loss (Income)**

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

	<b>Foreign Currency Translation Adjustments</b>	<b>Change in Fair Value of Hedging Instrument</b>	<b>Unrecognized Pension Benefit Costs</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at September 24, 2016	\$ (59,971)	\$ —	\$ 26,866	\$ (33,105)
Change during the period	(18,697)	—	(1,343)	(20,040)
Balance at September 30, 2017	(78,668)	—	25,523	(53,145)
Change during the period	(273)	47	(5,209)	(5,435)
Balance at September 30, 2018	\$ (78,941)	\$ 47	20,314	(58,580)

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**20. 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 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:

	<b>Period Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Earnout Shares	1,314,896*	2,500,000
Restricted Stock Units	1,826,472	756,331
Unvested Restricted Stock	624,116	2,012,445
Stock Warrants	9,539,565	9,539,615
	<u>13,305,049</u>	<u>14,808,391</u>

\* This number is based on a preliminary calculation of the number of shares estimated to be issued as Earnout Consideration. The calculation and payment are expected to be finalized by December 31, 2018.

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

Other finance income (costs) consisted of the following for the periods ended September 30, 2018 and 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Pension interest cost	\$ (2,954)	\$ (2,559)
Expected return on pension plan assets	3,733	2,402
Foreign currency translation on senior bank debt	3,355	—
Other	—	(61)
	<u>\$ 4,134</u>	<u>\$ (218)</u>

**22. Income Taxes**

The following comprises the loss before income taxes:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
UK	\$ (18,939)	\$ (38,720)
North America	(1,058)	(5,906)
Mainland Europe	(212)	(5,450)
South America	(205)	1,146
<b>Total loss before income taxes</b>	<u>\$ (20,414)</u>	<u>\$ (48,930)</u>

The income tax expense consisted of the following for the periods ended September 30, 2018 and 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Income tax expense:		
Current		
UK	\$ 30	\$ 7
Mainland Europe	152	130
South America	—	47
<b>Total current taxes</b>	<u>\$ 182</u>	<u>\$ 184</u>

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The net deferred tax assets and liabilities arising from temporary differences at September 30, 2018 and 2017 are as follows:

	September 30, 2018	September 30, 2017
Depreciation	\$ 32,091	\$ 35,915
Net operating losses	23,069	13,002
Other temporary differences	2,463	1,485
Total deferred tax assets	57,623	50,402
Valuation allowance balance	(54,855)	(48,832)
Net deferred tax assets	2,768	1,570
<b>Deferred tax liabilities</b>		
Intangible assets	(971)	(1,570)
Other temporary differences	(1,797)	—
<b>Net deferred tax liabilities</b>	<u>\$ —</u>	<u>\$ —</u>

The differences between the US statutory tax rate and our effective rate for the periods ended September 30, 2018 and 2017 are reflected in the following table:

	September 30, 2018	September 30, 2017
Statutory income tax	24.5%	34.0%
State taxes (net of federal)	4.9%	1.9
Tax effect of permanent differences	8.4%	2.8%
ATCA interest disallowed	—%	(3.3)%
Effect of foreign taxes	(8.4)%	(15.1)%
Rate change	(9.0)%	—%
Valuation allowance	(21.3)%	(20.7)%
<b>Effective income tax rate</b>	<u>(0.9)%</u>	<u>(0.4)%</u>

The valuation allowance on deferred tax assets has been determined by considering all available evidence, both positive and negative, in order to ascertain whether it is more likely than not that carried forward deferred tax assets will be realized. The Group has a total potential net deferred tax asset carried forward of \$54,855 at September 30, 2018.

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 \$54,855 as of September 30, 2018.

Currently, there are no U.S. federal, state or foreign jurisdiction tax audits pending. The Company's corporate U.S. federal and state tax returns from 2014 to 2017 remain subject to examination by tax authorities and the Company's foreign tax returns from 2012 to 2017 remain subject to examination by tax authorities.

In addition to the UK, the Group is subject to taxation in the US, and in certain foreign jurisdictions (primarily in Europe), where the total of non-UK taxes payable for the period ended September 30, 2018 is \$152.

The Group has not recognized deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries.

On December 22, 2017 several significant changes to the U.S. tax code were signed into law under the Tax Cuts and Jobs Act (the "Act"). Included among such changes is a reduction of the US corporate tax rate from 35% to 21%. Most of the effective dates of provisions in the Act are based on tax years beginning after December 31, 2017. Accordingly, many of the related provisions should not impact the Company until the fiscal year beginning October 1, 2018. Nonetheless, the Company continues to evaluate the impact of the Act on the tax provision.

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.

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**23. Related Parties**

We occupy office space leased by a company affiliated with our Executive Chairman. We acquired inventory and paid maintenance expenses for the office.

		<b>Period Ended September 30,</b>	
		<b>2018</b>	<b>2017</b>
Hydra Management LLC	Selling, general and administrative expenses	\$ (135)	\$ (162)

We incurred certain offering expenses in connection with an underwritten public offering of shares principally held by our largest stockholder, Landgame S.à.r.l, which closed in January 2018 as to which our expenses were reimbursed by the selling stockholders. For the period ended September 30, 2018, the aggregate amount invoiced for reimbursement was \$670.

We paid consulting fees to an entity owned by Jim O'Halleran, who was a director of Inspired prior to the Business Combination. For the period ended September 30, 2017, fees totaled \$328. The agreement terminated in November 2017.

HG Vora Special Opportunities Master Fund, Inc., which owns approximately 17.5% of our common stock and warrants to purchase an additional 400,000 shares of our common stock, purchased promissory notes issued by a subsidiary of the Company in the aggregate principal amount of \$140 million in connection with the refinancing of our debt facilities (see Note 12). HG Vora is also a stockholder and investor in Leisure Acquisition Corp., a special purpose acquisition company affiliated with two members of our management. Interest expense payable to HG Vora amounted to \$2,069 for the period ended September 30, 2018.

**24. Operating Leases**

At September 30, 2018, we were obligated under operating leases covering office and warehouse space and transportation equipment expiring at various dates. Future minimum lease payments required under our operating leases at September 30, 2018 were approximately as follows:

**Fiscal period ending September 30,**

2019	\$ 1,951
2020	1,357
2021	485
2022	117
<b>Total</b>	<b>\$ 3,910</b>

Rent expense under all operating leases was \$1,603 and \$1,642 for the periods ended September 30, 2018 and 2017, respectively.

Some of our operating leases contain provisions for future rent increases, rent-free periods or periods in which rent payments are reduced. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent obligation, which is included in accrued expenses and other long-term liabilities in the consolidated balance sheets.

**25. Commitments and Contingencies**

***Employment Agreements***

We are party to employment agreements with our executive officers and other employees of the Company and our subsidiaries which contain, among other terms, provisions relating to severance and notice requirements.

***Legal Matters***

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have an adverse effect on its business, financial condition or results of operations.

**26. Pension Plan**

We operate a combined scheme which comprises of a defined benefit section and a defined contribution section in the UK.

The defined contribution scheme assets are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group and amounted to \$1,965 and \$1,788 for the periods ending September 30, 2018 and 2017, respectively. Contributions totaling \$247 and \$228 were payable to the fund as at September 30, 2018 and 2017, respectively.

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The defined benefit section has been closed to new entrants since April 1, 1999 and closed to future accruals for services rendered to the Company for the entire financial statement periods presented in these consolidated financial statements. Retirement benefits are generally based on a portion of an employee's pensionable earnings during years prior to 2010. Our policy is to make contributions according to schedules agreed with the trustee every 3 years after completion of the triennial valuation undertaken by the scheme's actuaries. Per the current Schedule of Contributions, \$2,999 will be contributed to the pension plan in the period ending September 30, 2019. The Company is currently re-negotiating future contributions in line with the next triennial valuation and, as a result, the actual contributions to the pension plan in the period ending September 30, 2019 may be materially different to \$2,999. The latest actuarial valuation of the scheme at March 31, 2015 revealed a funding shortfall and a recovery plan consisting of additional contributions payable to the scheme has been put into place.

The trustee has made an allowance for the pension scheme liability profile when deciding the investment strategy of the pension scheme. Since the pension scheme is closed to new entrants and ceased future accrual with effect from March 31, 2010, it has continued to mature gradually. Therefore, the trustee reviews the investment strategy regularly to check whether any changes are needed. When considering the investment strategy, the trustee has taken into account the effect of any possible increases in the deficit reduction contributions on the financial position of the Company, and the extent to which the Company will be able to bear these changes.

The plan investment policy is to maximize long-term financial return commensurate with security and minimizing risk. This is achieved by holding a portfolio of marketable investments that avoids over-concentration of investment and spreads assets both over industries and geographies. In setting investment strategy, the trustees considered the lowest risk strategy that they could adopt in relation to the plan's liabilities and designed an asset allocation to achieve a higher return while maintaining a cautious approach to meeting the plan's liabilities. The trustees undertook a review of investment strategy and took advice from their investment advisors. They considered a full range of asset classes, the risks and rewards of a range of alternative asset allocation strategies, the suitability of each asset class and the need for appropriate diversification. The pension scheme has implemented a new investment strategy over the year to reduce risk without adversely affecting return. The current strategy is to hold 27% in a diversified growth fund, 14% in absolute return bonds, 18% in equity-linked bonds, 5% in a liability-driven investment fund and 36% in a buy-in policy.

Our pension benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, inflation, expected returns on plan assets, mortality rates and other factors. The assumptions used in recording the obligations under our plans represent our best estimates, and we believe that they are reasonable, based on information as to historical experience and performance as well as other factors that might cause future expectations to differ from past trends. Differences in actual experience or changes in assumptions may affect our pension obligations and future expense. The principal factors contributing to actuarial gains and losses each year are (1) changes in the discount rate used to value pension benefit obligations as of the measurement date and (2) differences between the expected and the actual return on plan assets.

Our valuation methodologies used for pension assets measured at fair value are as follows. There have been no changes in the methodologies used at September 30, 2018 and 2017.

The diversified fund is valued at fair value by using the net asset value ("NAV") of shares held by the plan at the year end. The NAV of the diversified fund is not publicly quoted. The majority of the underlying securities have observable Level 1 or 2 pricing inputs, including quoted prices for similar assets in active or non-active markets. ASC 820, Fair Value Measurements and Disclosures, allows NAV per share to serve as a practical expedient to estimate the fair value of the diversified fund. ASC 820 also states that where NAV is allowed to be used as an estimate of fair value, if the reporting entity has the ability to redeem its investment at NAV as of the measurement date, that investment shall be categorized as a Level II fair value measurement. If the investment cannot be redeemed at the measurement date, but may be redeemable in the future, but at an uncertain date, the investment shall be categorized as a Level 3 fair value measurement.

As of September 30, 2018 and 2017, the diversified fund was redeemable at NAV as of the measurement dates and, therefore, classified as Level 2.

With respect to the buy-in contract, it was agreed during the year ended September 27, 2014, that 281 pensioners of the plan would be insured by means of a pensioner buy-in. The liabilities and assets in respect of insured pensioners are assumed to match for the purposes of ASC 715, Pensions - Retirement Benefits, disclosures (i.e. the full benefits have been insured). The approach adopted has therefore been to include within the total value of assets, an amount equal to the calculated total liability value of the insured pensioners on the actuarial assumptions adopted for ASC 715 purposes. The buy-in contract is, therefore, classified as Level 3.

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The following table sets forth the combined funded status of the pension plans and their reconciliation to the related amounts recognized in our consolidated financial statements at our September 30, 2018 and 2017 measurement dates:

	September 30, 2018	September 30, 2017
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of period	\$ 105,877	\$ 104,667
Interest cost	2,954	2,559
Prior service cost	477	—
Actuarial (gain)/loss	(8,322)	300
Benefits paid	(2,577)	(4,827)
Foreign currency translation adjustments	(2,600)	3,178
Benefit obligation at end of period	<u>\$ 95,809</u>	<u>\$ 105,877</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of period	\$ 102,454	\$ 96,692
Actual gain on plan assets	670	3,596
Employer contributions	3,307	3,280
Benefits paid	(2,577)	(4,827)
Foreign currency translation adjustments	(2,788)	3,713
Fair value of assets at end of period	<u>\$ 101,066</u>	<u>\$ 102,454</u>
<b>Amount recognized in the consolidated balance sheets:</b>		
Overfunded (Unfunded) status (non-current)	\$ 5,257	\$ (3,423)
Net amount recognized	<u>\$ 5,257</u>	<u>\$ (3,423)</u>

The following table presents the components of our net periodic pension benefit cost:

	September 30, 2018	September 30, 2017
<b>Components of net periodic pension benefit cost:</b>		
Interest cost	\$ 2,954	\$ 2,559
Expected return on plan assets	(3,733)	(2,402)
Amortization of net loss	425	448
Net periodic (benefit) cost	<u>\$ (354)</u>	<u>\$ 605</u>

The accumulated benefit obligation for all defined benefit pension plans was \$95,809 and \$105,877 as of September 30, 2018 and 2017, respectively. The overfunded (underfunded) status of our defined benefit pension plans recorded as an asset/liability in our consolidated balance sheets as of September 30, 2018 and 2017 was \$5,257 and \$(3,423), respectively.

The estimated net loss, net transition asset (obligation) and prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are \$215, \$0 and \$18, respectively.

The fair value of the plan assets at September 30, 2018 by asset category is presented below:

	Level 1	Level 2	Level 3	Total
Diversified fund	\$ —	\$ 63,904	\$ —	\$ 63,904
Buy-in contract	—	—	36,621	36,621
Cash	541	—	—	541
Total	<u>\$ 541</u>	<u>\$ 63,904</u>	<u>\$ 36,621</u>	<u>\$ 101,066</u>

The fair value of the plan assets at September 30, 2017 by asset category is presented below:

	Level 1	Level 2	Level 3	Total
Diversified fund	\$ —	\$ 60,977	\$ —	\$ 60,977
Buy-in contract	—	—	40,452	40,452
Cash	1,025	—	—	1,025
Total	<u>\$ 1,025</u>	<u>\$ 60,977</u>	<u>\$ 40,452</u>	<u>\$ 102,454</u>

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The table below presents the weighted-average actuarial assumptions used to determine the benefit obligation and net periodic benefit cost for the Plan.

	September 30, 2018	September 30, 2017
Discount rate	2.90%	2.80%
Expected return on assets	3.70%	3.60%
RPI inflation	3.20%	3.40%
CPI inflation	2.20%	2.40%
Pension increases – pre-2006 service	3.10%	3.30%
Pension increases – post-2006 service	2.20%	2.20%

The following benefit payments are expected to be paid:

2019	\$	2,453
2020	\$	2,419
2021	\$	2,646
2022	\$	2,671
2023	\$	2,989
Thereafter (5 years from September 2023)	\$	17,285

## 27. Segmental Reporting and Geographic Information

Operating segments are identified as components of an enterprise for which separate and discrete financial information is available and is used by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief decision-maker is the Office of the Executive Chairman.

The Company's chief decision-maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenue and operating profit by operating unit. This information is used for purposes of allocating resources and evaluating financial performance.

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 accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies."

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 September 30, 2018 and 2017, 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.

### Segment Information

#### Period ended September 30, 2018

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
Revenue:				
Service	\$ 93,161	\$ 37,763	\$ —	\$ 130,924
Hardware	10,457	—	—	10,457
<b>Total revenue</b>	<b>103,618</b>	<b>37,763</b>	<b>—</b>	<b>141,381</b>
Cost of sales, excluding depreciation and amortization:				
Cost of service	(17,975)	(4,626)	—	(22,601)
Cost of hardware	(8,179)	—	—	(8,179)
Selling, general and administrative expenses	(15,693)	(7,503)	(36,918)	(60,114)
Stock-based compensation expense	(261)	(305)	(6,858)	(7,424)
Impairment expense	(4,715)	(2,964)	—	(7,679)
Acquisition related transaction expenses	—	—	(864)	(864)
Depreciation and amortization	(34,142)	(6,338)	(1,352)	(41,832)
<b>Segment operating income (loss)</b>	<b>22,653</b>	<b>16,027</b>	<b>(45,992)</b>	<b>(7,312)</b>
<b>Net operating loss</b>				<b>(7,312)</b>
<b>Total assets at September 30, 2018</b>	<b>\$ 103,378</b>	<b>\$ 69,545</b>	<b>\$ 34,989</b>	<b>\$ 207,912</b>



<b>Total goodwill at September 30, 2018</b>	<u>\$</u> <u>—</u>	<u>\$</u> <u>45,818</u>	<u>\$</u> <u>—</u>	<u>\$</u> <u>45,818</u>
<b>Total capital expenditures for the period ended September 30, 2018</b>	<u>\$</u> <u>35,262</u>	<u>\$</u> <u>6,798</u>	<u>\$</u> <u>202</u>	<u>\$</u> <u>42,262</u>

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**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE PERIODS ENDED**  
**SEPTEMBER 30, 2018 AND 2017**  
(in thousands, except share and per share data)

**Period ended September 30, 2017**

	<b>Server Based Gaming</b>	<b>Virtual Sports</b>	<b>Corporate Functions</b>	<b>Total</b>
<b>Revenue:</b>				
Service	\$ 74,072	\$ 33,424	\$ —	\$ 107,496
Hardware	15,048	—	—	15,048
<b>Total revenue</b>	<b>89,120</b>	<b>33,424</b>	<b>—</b>	<b>122,544</b>
<b>Cost of sales, excluding depreciation and amortization:</b>				
Cost of service	(11,688)	(4,157)	—	(15,845)
Cost of hardware	(10,839)	—	—	(10,839)
Selling, general and administrative expenses	(15,569)	(6,168)	(36,564)	(58,301)
Stock-based compensation expense	(231)	(261)	—	(4,235)
Acquisition related transaction expenses	—	—	(11,411)	(11,411)
Depreciation and amortization	(26,367)	(5,587)	(1,856)	(33,810)
<b>Segment operating income (loss)</b>	<b>24,426</b>	<b>17,251</b>	<b>(53,574)</b>	<b>(11,897)</b>
<b>Net operating loss</b>				<b>\$ (11,897)</b>
<b>Total assets at September 30, 2017</b>	<b>\$ 113,692</b>	<b>\$ 75,975</b>	<b>\$ 29,356</b>	<b>\$ 219,023</b>
<b>Total goodwill at September 30, 2017</b>	<b>\$ —</b>	<b>\$ 47,076</b>	<b>\$ —</b>	<b>\$ 47,076</b>
<b>Total capital expenditures for the period ended September 30, 2017</b>	<b>\$ 22,921</b>	<b>\$ 7,039</b>	<b>\$ 2,768</b>	<b>\$ 32,728</b>

***Geographic Information***

Geographic information for revenue is set forth below:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Total revenue</b>		
UK	\$ 89,626	\$ 79,991
Greece	23,445	11,668
Italy	18,603	16,598
Rest of world	9,707	14,287
<b>Total</b>	<b>\$ 141,381</b>	<b>\$ 122,544</b>

**INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE PERIODS ENDED**  
**SEPTEMBER 30, 2018 AND 2017**  
(in thousands, except share and per share data)

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

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Total non-current assets, excluding goodwill		
UK	\$ 60,037	\$ 68,069
Greece	36,175	20,728
Italy	3,368	5,761
Rest of world	3,962	14,189
<b>Total</b>	<b>\$ 103,542</b>	<b>\$ 108,747</b>

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

**28. Customer Concentration**

During the period ended September 30, 2018, three customers represented at least 10% of revenues, accounting for 24%, 17% and 13% of the Company's revenues. During the period ended September 30, 2017, two customers represented at least 10% of revenues, accounting for 26% and 10% of the Company's revenues.

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. At September 30, 2017, two customers represented at least 10% of accounts receivable, accounting for 26% and 13% of the Company's accounts receivable.

**29. Subsequent Events**

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

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

1. *Purpose.* The purpose of the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan is to provide a means through which the Company and its Affiliates may attract and retain key personnel and to provide a means whereby directors, officers, managers, employees, consultants and advisors of the Company and its Affiliates can acquire and maintain an equity interest in the Company, or be paid incentive compensation, which may (but need not) be measured by reference to the value of Common Shares, thereby strengthening their commitment to the welfare of the Company and its Affiliates and aligning their interests with those of the Company's stockholders.

2. *Definitions.* The following definitions shall be applicable throughout this Plan:

(a) "*Affiliate*" means (i) any person or entity that directly or indirectly controls, is controlled by or is under common control with the Company and/or (ii) to the extent provided by the Committee, any person or entity in which the Company has a significant interest as determined by the Committee in its discretion. The term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), as applied to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting or other securities, by contract or otherwise.

(b) "*Award*" means, individually or collectively, any Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit and Stock Bonus Award granted under this Plan.

(c) "*Award Agreement*" means an agreement made and delivered in accordance with Section 14(a) of this Plan evidencing the grant of an Award hereunder.

(d) "*Board*" means the Board of Directors of the Company.

(e) "*Business Day*" means any day other than a Saturday, a Sunday or a day on which banking institutions in New York City are authorized or obligated by federal law or executive order to be closed.

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(f) “Cause” shall have the meaning set forth in the applicable Award Agreement or Participant Agreement, provided that if the applicable Award Agreement or Participant Agreement does not contain such a definition, “Cause” shall mean, (1) the Participant’s plea of nolo contendere to, conviction of or indictment for, any crime (whether or not involving the Company or its Affiliates) (i) constituting a felony or (ii) that has, or could reasonably be expected to result in, an adverse impact on the performance of the Participant’s duties to the Company or an Affiliate, or otherwise has, or could reasonably be expected to result in, an adverse impact on the business or reputation of the Company or its Affiliates, (2) conduct of the Participant, in connection with his or her employment or service, that has resulted, or could reasonably be expected to result, in material injury to the business or reputation of the Company or its Affiliates, (3) any material violation of the Award Agreement, the Participant Agreement, or any policies of the Company or an Affiliate, including, but not limited to, the Inspired Entertainment, Inc. Code of Ethics, those policies relating to sexual harassment or the disclosure or misuse of confidential information, or those policies set forth in the manuals or statements of policy of the Company or Affiliate; (4) the Participant’s act(s) of gross negligence or willful misconduct in the course of his or her employment or service with the Company or Affiliate; (5) misappropriation by the Participant of any assets or business opportunities of the Company or its Affiliates; (6) embezzlement or fraud committed by the Participant, at the Participant’s direction, or with the Participant’s prior actual knowledge; or (7) willful neglect in the performance of the Participant’s duties for the Company or Affiliate or willful or repeated failure or refusal to perform such duties. If, subsequent to the termination of a Participant for any reason other than by the Company or Affiliate for Cause, it is discovered that the Participant’s employment or service could have been terminated for Cause, such Participant’s employment or service shall, at the discretion of the Committee, be deemed to have been terminated by the Company or Affiliate for Cause for all purposes under the Plan, and the Participant shall be required to repay to the Company all amounts received by him or her in respect of any Award following such termination that would have been forfeited under the Plan had such termination been by the Company or Affiliate for Cause.

(g) “Change in Control” shall, in the case of a particular Award, unless the applicable Award Agreement states otherwise or contains a different definition of “Change in Control,” be deemed to occur upon:

(i) A change in ownership or control of the Company affected through a transaction or series of transactions (other than an offering of Common Shares to the general public through a registration statement filed with the Securities and Exchange Commission or similar non-U.S. regulatory agency or pursuant to a Non-Control Transaction) whereby any “person” (as defined in Section 3(a)(9) of the Exchange Act) or any two or more persons deemed to be one “person” (as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), other than the Company or any of its Affiliates, an employee benefit plan sponsored or maintained by the Company or any of its Affiliates (or its related trust), or any underwriter temporarily holding securities pursuant to an offering of such securities, directly or indirectly acquire “beneficial ownership” (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company’s securities eligible to vote in the election of the Board (the “Company Voting Securities”);

(ii) The date, within any consecutive twenty-four (24) month period commencing on or after the Effective Date, upon which individuals who constitute the Board as of the Effective Date (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual who becomes a director subsequent to the Effective Date whose election or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then constituting the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such individual is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest (including, but not limited to, a consent solicitation) with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board;

(iii) The consummation of a merger, consolidation, share exchange, or similar form of corporate transaction involving the Company or any of its Affiliates that requires the approval of the Company's stockholders (whether for such transaction, the issuance of securities in the transaction or otherwise) (a "Reorganization"), unless immediately following such Reorganization (1) more than fifty percent (50%) of the total voting power of (A) the corporation resulting from such Reorganization (the "Surviving Company") or (B) if applicable, the ultimate parent corporation that has, directly or indirectly, beneficial ownership of one hundred percent (100%) of the voting securities of the Surviving Company (the "Parent Company"), is represented by Company Voting Securities that were outstanding immediately prior to such Reorganization (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Reorganization), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among holders thereof immediately prior to such Reorganization, (2) no person, other than an employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company (or its related trust), is or becomes the beneficial owner, directly or indirectly, of fifty percent (50%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Company, or if there is no Parent Company, the Surviving Company, and (3) at least a majority of the members of the board of directors of the Parent Company, or if there is no Parent Company, the Surviving Company, following the consummation of such Reorganization are members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Reorganization (any Reorganization which satisfies all of the criteria specified in clauses (1), (2), and (3) above shall be a "Non-Control Transaction"); or

(iv) The sale or disposition, in one transaction or a series of related transactions, of all or substantially all of the assets of the Company to any "person" (as defined in Section 3(a)(9) of the Exchange Act) or to any two or more persons deemed to be one "person" (as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than the Company's Affiliates.

Notwithstanding the foregoing, (x) a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of fifty percent (50%) or more of the Company Voting Securities as a result of an acquisition of Company Voting Securities by the Company that reduces the number of Company Voting Securities outstanding; *provided* that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increase the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control shall then be deemed to occur, and (y) with respect to the payment of any amount that constitutes a deferral of compensation subject to Section 409A of the Code payable upon a Change in Control, a Change in Control shall not be deemed to have occurred, unless the Change in Control constitutes a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company under Section 409A(a)(2)(A)(v) of the Code.

(h) “Code” means the Internal Revenue Code of 1986, as amended, and any successor thereto. References in this Plan to any section of the Code shall be deemed to include any regulations or other interpretative guidance under such section, and any amendments or successor provisions to such section, regulations or guidance.

(i) “Committee” means a committee of at least two people as the Board may appoint to administer this Plan or, if no such committee has been appointed by the Board, the Board. Unless altered by an action of the Board, the Committee shall be the Compensation Committee of the Board.

(j) “Common Shares” means the common stock, par value \$0.0001 per share, of the Company (and any stock or other securities into which such common shares may be converted or into which they may be exchanged).

(k) “Company” means Inspired Entertainment, Inc., and its successors and assigns.

(l) “Date of Grant” means the date on which the granting of an Award is authorized, or such other date as may be specified in such authorization.

(m) “Disability” means a “permanent and total” disability incurred by a Participant while in the employ of the Company or an Affiliate. For this purpose, a permanent and total disability shall mean that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

(n) “Effective Date” means September 28, 2018, which is the date as of which this Plan was adopted by the Board, subject to Section 3 of this Plan.

(o) “Eligible Director” means a person who is (i) a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, and (ii) an “outside director” within the meaning of Section 162(m) of the Code.

(p) “Eligible Person” means any (i) individual employed by the Company or an Affiliate; *provided, however*, that no such employee covered by a collective bargaining agreement shall be an Eligible Person unless and to the extent that such eligibility is set forth in such collective bargaining agreement or in an agreement or instrument relating thereto; (ii) director of the Company or an Affiliate; or (iii) consultant or advisor to the Company or an Affiliate, provided that if the Securities Act applies such persons must be eligible to be offered securities registrable on Form S-8 under the Securities Act.

(q) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and any reference in this Plan to any section of (or rule promulgated under) the Exchange Act shall be deemed to include any rules, regulations or other interpretative guidance under such section or rule, and any amendments or successor provisions to such section, rules, regulations or guidance.

(r) “Exercise Price” has the meaning given such term in Section 7(b) of this Plan.

(s) “Fair Market Value” means, as of any date when Common Shares are listed on one or more national securities exchanges, the closing price reported on the principal national securities exchange on which such Common Shares are listed and traded on the Date of Grant or, if the closing price is not reported on such date, the closing price reported on the most recent date prior to the Date of Grant. If Common shares are not listed on a national securities exchange, Fair Market Value will be determined by such other method as the Committee determines in good faith to be reasonable and in compliance with Code Section 409A.

(t) “Immediate Family Members” shall have the meaning set forth in Section 14(b) of this Plan.

(u) “Incentive Stock Option” means an Option that is designated by the Committee as an incentive stock option as described in Section 422 of the Code and otherwise meets the requirements set forth in this Plan.

(v) “Indemnifiable Person” shall have the meaning set forth in Section 4(e) of this Plan.

(w) “Nonqualified Stock Option” means an Option that is not designated by the Committee as an Incentive Stock Option.

(x) “Option” means an Award granted under Section 7 of this Plan.

(y) “Option Period” has the meaning given such term in Section 7(c) of this Plan.

(z) “Participant” means an Eligible Person who has been selected by the Committee to participate in this Plan and to receive an Award pursuant to Section 6 of this Plan.

(aa) “Participant Agreement” means an employment or other services agreement between a Participant and the Company or an Affiliate that describes the terms and conditions of such Participant’s employment or service with the Company or an Affiliate and is in effect as of the date the Committee approves the grant of the applicable Award to the Participant.

(bb) “Performance Criteria” means any of the following factors: (i) revenue; (ii) sales; (iii) profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures); (iv) earnings (EBIT, EBITDA, earnings per share, or other corporate earnings measures); (v) net income (before or after taxes, operating income or other income measures); (vi) cash (cash flow, cash generation or other cash measures); (vii) stock price or performance; (viii) total stockholder return (stock price appreciation plus reinvested dividends divided by beginning share price); (ix) economic value added; (x) return measures (including, but not limited to, return on assets, capital, equity, investments or sales, and cash flow return on assets, capital, equity, or sales); (xi) market share; (xii) improvements in capital structure; (xiii) expenses (expense management, expense ratio, expense efficiency ratios or other expense measures); (xiv) business expansion or consolidation (acquisitions and divestitures); (xv) internal rate of return or increase in net present value; (xvi) working capital targets relating to inventory and/or accounts receivable; (xvii) inventory management; (xviii) service or product delivery or quality; (xix) customer satisfaction; (xx) employee retention; (xxi) safety standards; (xxii) productivity measures; (xxiii) cost reduction measures; and/or (xxiv) strategic plan development and implementation.



- (cc) "Permitted Transferee" shall have the meaning set forth in Section 15(b) of this Plan.
- (dd) "Person" has the meaning given such term in the definition of "Change in Control."
- (ee) "Plan" means this Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan, as amended from time to time.
- (ff) "Restricted Period" means the period of time determined by the Committee during which an Award is subject to restrictions or, as applicable, the period of time within which performance is measured for purposes of determining whether an Award has been earned.
- (gg) "Restricted Stock Unit" means an unfunded and unsecured promise to deliver Common Shares, cash, other securities or other property, subject to certain restrictions (including, without limitation, a requirement that the Participant remain continuously employed or provide continuous services for a specified period of time), granted under Section 9 of this Plan.
- (hh) "Restricted Stock" means Common Shares, subject to certain specified restrictions (including, without limitation, a requirement that the Participant remain continuously employed or provide continuous services for a specified period of time), granted under Section 9 of this Plan.
- (ii) "SAR Period" has the meaning given such term in Section 8(c) of this Plan.
- (jj) "Securities Act" means the Securities Act of 1933, as amended, and any successor thereto. Reference in this Plan to any section of the Securities Act shall be deemed to include any rules, regulations or other official interpretative guidance under such section, and any amendments or successor provisions to such section, rules, regulations or guidance.
- (kk) "Stock Appreciation Right" or "SAR" means an Award granted under Section 8 of this Plan which meets all of the requirements of Section 1.409A-1(b)(5)(i)(B) of the Treasury Regulations.
- (ll) "Stock Bonus Award" means an Award granted under Section 10 of this Plan.

(mm) “*Strike Price*” means, except as otherwise provided by the Committee in the case of Substitute Awards, (i) in the case of a SAR granted in tandem with an Option, the Exercise Price of the related Option, or (ii) in the case of a SAR granted independent of an Option, the Fair Market Value on the Date of Grant.

(nn) “*Subsidiary*” means, with respect to any specified Person:

(i) any corporation, association or other business entity of which more than 50% of the total voting power of shares of outstanding Company Voting Securities (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(ii) any partnership or limited liability company (or any comparable foreign entity) (a) the sole general partner or managing member (or functional equivalent thereof) or the managing general partner of which is such Person or Subsidiary of such Person or (b) the only general partners or managing members (or functional equivalents thereof) of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

(oo) “*Substitute Award*” has the meaning given such term in Section 5(e).

(pp) “*Treasury Regulations*” means any regulations, whether proposed, temporary or final, promulgated by the U.S. Department of Treasury under the Code, and any successor provisions.

3 . *Effective Date; Duration.* The Plan shall be effective as of the Effective Date, subject to approval by the stockholders of the Company, which approval shall be within twelve (12) months after the date this Plan is adopted by the Board. The expiration date of this Plan, on and after which date no Awards may be granted hereunder, shall be the tenth anniversary of the Effective Date; *provided, however,* that such expiration shall not affect Awards then outstanding, and the terms and conditions of this Plan shall continue to apply to such Awards.

#### 4. *Administration.*

(a) The Committee shall administer this Plan. To the extent required to comply with the provisions of Rule 16b-3 promulgated under the Exchange Act (if the Board is not acting as the Committee under this Plan), it is intended that each member of the Committee shall, at the time he takes any action with respect to an Award under this Plan, be an Eligible Director. However, the fact that a Committee member shall fail to qualify as an Eligible Director shall not invalidate any Award granted by the Committee that is otherwise validly granted under this Plan. The acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee. Whether a quorum is present shall be determined based on the Committee’s charter as approved by the Board.

(b) Subject to the provisions of this Plan and applicable law, the Committee shall have the sole and plenary authority, in addition to other express powers and authorizations conferred on the Committee by this Plan and its charter, to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Common Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award, including, without limitation, vesting terms and conditions for any Award hereunder which may include the achievement of any Performance Criteria selected by the Committee; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, Common Shares, other securities, other Awards or other property, or canceled, forfeited, or suspended, and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances the delivery of cash, Common Shares, other securities, other Awards or other property and other amounts payable with respect to an Award shall be made; (vii) interpret, administer, reconcile any inconsistency in, settle any controversy regarding, correct any defect in and/or complete any omission in this Plan and any instrument or agreement relating to, or Award granted under, this Plan; (viii) establish, amend, suspend, or waive any rules and regulations and appoint such agents as the Committee shall deem appropriate for the proper administration of this Plan; (ix) accelerate the vesting or exercisability of, payment for or lapse of restrictions on, Awards; (x) reprice existing Awards or to grant Awards in connection with or in consideration of the cancellation of an outstanding Award with a higher price; and (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of this Plan.

(c) The Committee may, by resolution, expressly delegate to a special committee, consisting of one or more directors who may but need not be officers of the Company, the authority, within specified parameters as to the number and types of Awards, to (i) designate officers and/or employees of the Company or any of its Affiliates to be recipients of Awards under this Plan, and (ii) to determine the number of such Awards to be received by any such Participants; provided, however, that such delegation of duties and responsibilities may not be made with respect to grants of Awards to persons subject to Section 16 of the Exchange Act. The acts of such delegates shall be treated as acts of the Committee, and such delegates shall report regularly to the Board and the Committee regarding the delegated duties and responsibilities and any Awards granted.

(d) Unless otherwise expressly provided in this Plan, all designations, determinations, interpretations, and other decisions under or with respect to this Plan or any Award or any documents evidencing Awards granted pursuant to this Plan shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all persons or entities, including, without limitation, the Company, any Affiliate, any Participant, any holder or beneficiary of any Award, and any stockholder of the Company.

(e) No member of the Board, the Committee, delegate of the Committee or any employee, advisor or agent of the Company or the Board or the Committee (each such person, an "*Indemnifiable Person*") shall be liable for any action taken or omitted to be taken or any determination made in good faith with respect to this Plan or any Award hereunder. Each Indemnifiable Person shall be indemnified and held harmless by the Company against and from (and the Company shall pay or reimburse on demand for) any loss, cost, liability, or expense (including court costs and attorneys' fees) that may be imposed upon or incurred by such Indemnifiable Person in connection with or resulting from any action, suit or proceeding to which such Indemnifiable Person may be a party or in which such Indemnifiable Person may be involved by reason of any action taken or omitted to be taken under this Plan or any Award Agreement and against and from any and all amounts paid by such Indemnifiable Person with the Company's approval, in settlement thereof, or paid by such Indemnifiable Person in satisfaction of any judgment in any such action, suit or proceeding against such Indemnifiable Person, provided, that the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The foregoing right of indemnification shall not be available to an Indemnifiable Person to the extent that a final judgment or other final adjudication (in either case not subject to further appeal) binding upon such Indemnifiable Person determines that the acts or omissions of such Indemnifiable Person giving rise to the indemnification claim resulted from such Indemnifiable Person's bad faith, fraud or willful criminal act or omission or that such right of indemnification is otherwise prohibited by law or by the Company's Certificate of Incorporation or Bylaws. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which any such Indemnifiable Person may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any other power that the Company may have to indemnify such Indemnifiable Persons or hold them harmless.

(f) Notwithstanding anything to the contrary contained in this Plan, the Board may, in its sole discretion, at any time and from time to time, grant Awards and administer this Plan with respect to such Awards. In any such case, the Board shall have all the authority granted to the Committee under this Plan.

5. *Grant of Awards; Shares Subject to this Plan; Limitations.*

(a) The Committee may, from time to time, grant Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and/or Stock Bonus Awards to one or more Eligible Persons. Subject to Section 12 of this Plan, the Committee is authorized to deliver under this Plan an aggregate of 2,550,000 Common Shares. Notwithstanding the foregoing, a director of the Company or an Affiliate who is not an employee of the Company or an Affiliate may not be granted Awards denominated in Common Shares, the aggregate Date of Grant Fair Market Value of which exceeds, in any calendar year, \$250,000; provided, that the foregoing limitation shall not apply to any Award made pursuant to an election by a director to receive an Award in lieu of all or a portion of the annual and/or committee retainers and annual meeting fee payable to such director.

(b) Common Shares underlying Awards under this Plan that are forfeited, cancelled, expire unexercised, or are settled in cash shall be available again for Awards under this Plan at the same ratio at which they were previously granted. Notwithstanding the foregoing, the following Common Shares shall not be available again for Awards under the Plan: (i) shares tendered or held back upon the exercise of an Option or settlement of an Award to cover the Exercise Price of an Award; (ii) shares that are used or withheld to satisfy tax withholding obligations of the Participant; and (iii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the SAR upon exercise thereof.

(c) Awards that do not entitle the holder thereof to receive or purchase Common Shares shall not be counted against the aggregate number of Common Shares available for Awards under the Plan.

(d) Common Shares delivered by the Company in settlement of Awards may be authorized and unissued shares, shares held in the treasury of the Company, shares purchased on the open market or by private purchase, or any combination of the foregoing.

(e) Subject to compliance with Section 1.409A-3(f) of the Treasury Regulations, Awards may, in the sole discretion of the Committee, be granted under this Plan in assumption of, or in substitution for, outstanding awards previously granted by an entity acquired by the Company or with which the Company combines ("*Substitute Awards*"). The number of Common Shares underlying any Substitute Awards shall be counted against the aggregate number of Common Shares available for Awards under this Plan; provided, however that Common Shares issued under Substitute Awards granted in substitution for awards previously granted by an entity that is acquired by or merged with the Company or an Affiliate shall not be counted against the aggregate number of Common Shares available for Awards under the Plan.

6 . *Eligibility.* Participation shall be limited to Eligible Persons who have entered into an Award Agreement or who have received written notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in this Plan.

7. *Options.*

(a) *Generally.* Each Option granted under this Plan shall be evidenced by an Award Agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each Option so granted shall be subject to the conditions set forth in this Section 7, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award Agreement. All Options granted under this Plan shall be Nonqualified Stock Options unless the applicable Award Agreement expressly states that the Option is intended to be an Incentive Stock Option. Notwithstanding any designation of an Option, to the extent that the aggregate Fair Market Value of Common Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company or any Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonqualified Stock Options. Incentive Stock Options shall be granted only to Eligible Persons who are employees of the Company and its Affiliates, and no Incentive Stock Option shall be granted to any Eligible Person who is ineligible to receive an Incentive Stock Option under the Code. No Option shall be treated as an Incentive Stock Option unless this Plan has been approved by the stockholders of the Company in a manner intended to comply with the stockholder approval requirements of Section 422(b)(1) of the Code, provided that any Option intended to be an Incentive Stock Option shall not fail to be effective solely on account of a failure to obtain such approval, but rather such Option shall be treated as a Nonqualified Stock Option unless and until such approval is obtained. In the case of an Incentive Stock Option, the terms and conditions of such grant shall be subject to and comply with such rules as may be prescribed by Section 422 of the Code. If for any reason an Option intended to be an Incentive Stock Option (or any portion thereof) shall not qualify as an Incentive Stock Option, then, to the extent of such nonqualification, such Option or portion thereof shall be regarded as a Nonqualified Stock Option appropriately granted under this Plan.

( b ) Exercise Price. The exercise price ("Exercise Price") per Common Share for each Option shall not be less than 100% of the Fair Market Value of such share determined as of the Date of Grant; *provided, however*, that in the case of an Incentive Stock Option granted to an employee who, at the time of the grant of such Option, owns shares representing more than 10% of the voting power of all classes of shares of the Company or any Affiliate, the Exercise Price per share shall not be less than 110% of the Fair Market Value per share on the Date of Grant.

( c ) Vesting and Expiration. Options shall vest and become exercisable in such manner and on such date or dates determined by the Committee and as set forth in the applicable Award Agreement, and shall expire after such period, not to exceed ten (10) years from the Date of Grant, as may be determined by the Committee (the "Option Period"); *provided, however*, that the Option Period shall not exceed five (5) years from the Date of Grant in the case of an Incentive Stock Option granted to a Participant who on the Date of Grant owns shares representing more than 10% of the voting power of all classes of shares of the Company or any Affiliate; and, *provided, further*, that notwithstanding any vesting dates set by the Committee, the Committee may, in its sole discretion, accelerate the exercisability of any Option, which acceleration shall not affect the terms and conditions of such Option other than with respect to exercisability. Unless otherwise provided by the Committee in an Award Agreement:

(i) an Option shall vest and become exercisable with respect to one-third of the Common Shares subject to such Option on each of the first three anniversaries of the Date of Grant; *provided, however*, that the Committee may designate a purchase price below Fair Market Value on the date of grant if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Company or an Affiliate;

(ii) the unvested portion of an Option shall expire upon termination of employment or service of the Participant granted the Option, and the vested portion of such Option shall remain exercisable for:

(A) one year following termination of employment or service by reason of such Participant's death or Disability (with the determination of Disability to be made by the Committee on a case by case basis), but not later than the expiration of the Option Period; and

(B) 90 calendar days following termination of employment or service for any reason other than such Participant's death or Disability, and other than such Participant's termination of employment or service for Cause, but not later than the expiration of the Option Period; and

(iii) both the unvested and the vested portion of an Option shall immediately expire upon the termination of the Participant's employment or service by the Company for Cause.

Notwithstanding the foregoing provisions of Section 7(c) and consistent with the requirements of applicable law, the Committee, in its sole discretion, may extend the post-termination of employment period during which a Participant may exercise vested Options.

( d ) Method of Exercise and Form of Payment. No Common Shares shall be delivered pursuant to the exercise of an Option until payment in full of the Exercise Price therefor is received by the Company and the Participant has paid to the Company an amount equal to any applicable federal, state, local and/or foreign income and employment taxes withheld. Options that have become exercisable may be exercised by delivery of written or electronic notice of exercise to the Company in accordance with the terms of the Award Agreement accompanied by payment of the Exercise Price. The Exercise Price shall be payable (i) in cash, check (subject to collection), cash equivalent and/or vested Common Shares valued at the Fair Market Value at the time the Option is exercised (including, pursuant to procedures approved by the Committee, by means of attestation of ownership of a sufficient number of Common Shares in lieu of actual delivery of such shares to the Company); provided, however, that such Common Shares are not subject to any pledge or other security interest; and (ii) by such other method as the Committee may permit in accordance with applicable law, in its sole discretion, including without limitation: (A) in other property having a fair market value (as determined by the Committee in its discretion) on the date of exercise equal to the Exercise Price or (B) if there is a public market for the Common Shares at such time, by means of a broker-assisted “cashless exercise” pursuant to which the Company is delivered a copy of irrevocable instructions to a stockbroker to sell the Common Shares otherwise deliverable upon the exercise of the Option and to deliver promptly to the Company an amount equal to the Exercise Price or (C) by a “net exercise” method whereby the Company withholds from the delivery of the Common Shares for which the Option was exercised that number of Common Shares having a Fair Market Value equal to the aggregate Exercise Price for the Common Shares for which the Option was exercised. Any fractional Common Shares shall be settled in cash.

( e ) Notification upon Disqualifying Disposition of an Incentive Stock Option. Each Participant awarded an Incentive Stock Option under this Plan shall notify the Company in writing immediately after the date he makes a disqualifying disposition of any Common Shares acquired pursuant to the exercise of such Incentive Stock Option. A disqualifying disposition is any disposition (including, without limitation, any sale) of such Common Shares before the later of (A) two years after the Date of Grant of the Incentive Stock Option or (B) one year after the transfer of such Common Shares to the Participant pursuant to his exercise of the Incentive Stock Option. The Company may, if determined by the Committee and in accordance with procedures established by the Committee, retain possession of any Common Shares acquired pursuant to the exercise of an Incentive Stock Option as agent for the applicable Participant until the end of the period described in the preceding sentence.

( f ) Compliance with Laws, etc. Notwithstanding the foregoing, in no event shall a Participant be permitted to exercise an Option in a manner that the Committee determines would violate the Sarbanes-Oxley Act of 2002, if applicable, or any other applicable law or the applicable rules and regulations of the Securities and Exchange Commission or the applicable rules and regulations of any securities exchange or inter-dealer quotation system on which the securities of the Company are listed or traded.

8. *Stock Appreciation Rights.*

(a) *Generally.* Each SAR granted under this Plan shall be evidenced by an Award Agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each SAR so granted shall be subject to the conditions set forth in this Section 8, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award Agreement. Any Option granted under this Plan may include tandem SARs (i.e., SARs granted in conjunction with an Award of Options under this Plan). The Committee also may award SARs to Eligible Persons independent of any Option.

(b) *Exercise Price.* The Exercise Price per Common Share for each Option granted in connection with a SAR shall not be less than 100% of the Fair Market Value of such share determined as of the Date of Grant; provided, however, that the Committee may designate a purchase price below Fair Market Value on the date of grant if the SAR is granted in substitution for an appreciation right previously granted by an entity that is acquired by or merged with the Company or an Affiliate.

(c) *Vesting and Expiration.* A SAR granted in connection with an Option shall become exercisable and shall expire according to the same vesting schedule and expiration provisions as the corresponding Option. A SAR granted independent of an Option shall vest and become exercisable and shall expire in such manner and on such date or dates determined by the Committee and shall expire after such period, not to exceed ten years, as may be determined by the Committee (the "*SAR Period*"); *provided, however,* that notwithstanding any vesting dates set by the Committee, the Committee may, in its sole discretion, accelerate the exercisability of any SAR, which acceleration shall not affect the terms and conditions of such SAR other than with respect to exercisability. Unless otherwise provided by the Committee in an Award Agreement:

(i) a SAR shall vest and become exercisable with respect to one-third of the Common Shares subject to such SAR on each of the first three anniversaries of the Date of Grant;

(ii) the unvested portion of a SAR shall expire upon termination of employment or service of the Participant granted the SAR, and the vested portion of such SAR shall remain exercisable for:

(A) one year following termination of employment or service by reason of such Participant's death or Disability (with the determination of Disability to be made by the Committee on a case by case basis), but not later than the expiration of the SAR Period; and

(B) 90 calendar days following termination of employment or service for any reason other than such Participant's death or Disability, and other than such Participant's termination of employment or service for Cause, but not later than the expiration of the SAR Period; and

(iii) both the unvested and the vested portion of a SAR shall expire immediately upon the termination of the Participant's employment or service by the Company for Cause.



(d) Method of Exercise. SARs that have become exercisable may be exercised by delivery of written or electronic notice of exercise to the Company in accordance with the terms of the Award, specifying the number of SARs to be exercised and the date on which such SARs were awarded. Notwithstanding the foregoing, if on the last day of the Option Period (or in the case of a SAR independent of an Option, the SAR Period), the Fair Market Value exceeds the Strike Price, the Participant has not exercised the SAR or the corresponding Option (if applicable), and neither the SAR nor the corresponding Option (if applicable) has expired, such SAR shall be deemed to have been exercised by the Participant on such last day and the Company shall make the appropriate payment therefor.

(e) Payment. Upon the exercise of a SAR, the Company shall pay to the Participant an amount equal to the number of Common Shares subject to the SAR that are being exercised multiplied by the excess, if any, of the Fair Market Value of one Common Share on the exercise date over the Strike Price, less an amount equal to any applicable federal, state, local and non-U.S. income and employment taxes withheld. The Company shall pay such amount in cash, in Common Shares valued at Fair Market Value, or any combination thereof, as determined by the Committee. Any fractional Common Share shall be settled in cash.

9. Restricted Stock and Restricted Stock Units.

(a) Generally. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each such grant shall be subject to the conditions set forth in this Section 9, and to such other conditions not inconsistent with this Plan as may be reflected in the applicable Award Agreement. Restricted Stock and Restricted Stock Units shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, for example, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, upon the satisfaction of performance goals or otherwise, as the Committee determines at the time of the grant of an Award or thereafter. Except as otherwise provided in an Award Agreement, a Participant shall have none of the rights of a stockholder with respect to Restricted Stock Units until such time as Common Shares are paid in settlement of such Awards.

(b) Restricted Accounts; Escrow or Similar Arrangement. Unless otherwise determined by the Committee, upon the grant of Restricted Stock, a book entry in a restricted account shall be established in the Participant's name at the Company's transfer agent and, if the Committee determines that the Restricted Stock shall be held by the Company or in escrow rather than held in such restricted account pending the release of the applicable restrictions, the Committee may require the Participant to additionally execute and deliver to the Company (i) an escrow agreement satisfactory to the Committee, if applicable, and (ii) the appropriate share power (endorsed in blank) with respect to the Restricted Stock covered by such agreement. If a Participant shall fail to execute an agreement evidencing an Award of Restricted Stock and, if applicable, an escrow agreement and blank share power within the amount of time specified by the Committee, the Award shall be null and void *ab initio*. Subject to the restrictions set forth in this Section 9 and the applicable Award Agreement, the Participant generally shall have the rights and privileges of a stockholder as to such Restricted Stock, including without limitation the right to vote such Restricted Stock and the right to receive dividends, if applicable. To the extent shares of Restricted Stock are forfeited, any share certificates issued to the Participant evidencing such shares shall be returned to the Company, and all rights of the Participant to such shares and as a stockholder with respect thereto shall terminate without further obligation on the part of the Company.

( c ) *Vesting; Acceleration of Lapse of Restrictions.* Unless otherwise provided by the Committee in an Award Agreement: (i) the Restricted Period shall lapse with respect to one-third of the Restricted Stock and Restricted Stock Units on each of the first three anniversaries of the Date of Grant; and (ii) the unvested portion of Restricted Stock and Restricted Stock Units shall terminate and be forfeited upon the termination of employment or service of the Participant granted the applicable Award.

(d) *Delivery of Restricted Stock and Settlement of Restricted Stock Units.*

(i) Upon the expiration of the Restricted Period with respect to any shares of Restricted Stock, the restrictions set forth in the applicable Award Agreement shall be of no further force or effect with respect to such shares, except as set forth in the applicable Award Agreement. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Participant, or his beneficiary, without charge, the share certificate evidencing the shares of Restricted Stock that have not then been forfeited and with respect to which the Restricted Period has expired (rounded down to the nearest full share). Dividends, if any, that may have been withheld by the Committee and attributable to any particular share of Restricted Stock shall be distributed to the Participant in cash or, at the sole discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such dividends, upon the release of restrictions on such shares of Restricted Stock and, if such shares of Restricted Stock are forfeited, the Participant shall have no right to such dividends (except as otherwise set forth by the Committee in the applicable Award Agreement).

(ii) Unless otherwise provided by the Committee in an Award Agreement, upon the expiration of the Restricted Period with respect to any outstanding Restricted Stock Units and no later than the 75<sup>th</sup> day of the calendar year following the calendar year in which such expiration occurs, the Company shall deliver to the Participant, or his beneficiary, without charge, one Common Share for each such outstanding Restricted Stock Unit; *provided, however,* that the Committee may, in its sole discretion and subject to the requirements of Section 409A of the Code, elect to (i) pay cash or part cash and part Common Share in lieu of delivering only Common Shares in respect of such Restricted Stock Units or (ii) defer the delivery of Common Shares (or cash or part Common Shares and part cash, as the case may be) beyond the 75<sup>th</sup> day of the calendar year following the calendar year in which the expiration of the Restricted Period occurs if such delivery would result in a violation of applicable law until such time as is no longer the case. If a cash payment is made in lieu of delivering Common Shares, the amount of such payment shall be equal to the Fair Market Value of the Common Shares as of the date on which the Restricted Period lapsed with respect to such Restricted Stock Units, less an amount equal to any applicable federal, state, local and non-U.S. income and employment taxes withheld. Notwithstanding anything contained herein to the contrary, the Committee in an Award Agreement may, in a manner consistent with the applicable requirements of Section 409A of the Code, enable a Participant to elect to defer the date on which settlement of the Restricted Stock Units shall occur.

10. *Stock Bonus Awards.* The Committee may issue unrestricted Common Shares, or other Awards denominated in Common Shares, under this Plan to Eligible Persons, either alone or in tandem with other awards, in such amounts as the Committee shall from time to time in its sole discretion determine. Each Stock Bonus Award granted under this Plan shall be evidenced by an Award Agreement (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)). Each Stock Bonus Award so granted shall be subject to such conditions not inconsistent with this Plan as may be reflected in the applicable Award Agreement.

11. *Changes in Capital Structure and Similar Events.* In the event of (a) any dividend or other distribution (whether in the form of cash, Common Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, amalgamation, consolidation, split-up, split-off, combination, repurchase or exchange of Common Shares or other securities of the Company, issuance of warrants or other rights to acquire Common Shares or other securities of the Company, or other similar corporate transaction or event (including, without limitation, a Change in Control) that affects the Common Shares, or (b) unusual or nonrecurring events (including, without limitation, a Change in Control) affecting the Company, any Affiliate, or the financial statements of the Company or any Affiliate, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation system, accounting principles or law, such that in either case an adjustment is determined by the Committee in its sole discretion to be necessary or appropriate in order to prevent dilution or enlargement of rights, then the Committee shall make any such adjustments that are equitable, including without limitation any or all of the following:

(i) adjusting any or all of (A) the number of Common Shares or other securities of the Company (or number and kind of other securities or other property) that may be delivered in respect of Awards or with respect to which Awards may be granted under this Plan (including, without limitation, adjusting any or all of the limitations under Section 5 of this Plan) and (B) the terms of any outstanding Award, including, without limitation, (1) the number of Common Shares or other securities of the Company (or number and kind of other securities or other property) subject to outstanding Awards or to which outstanding Awards relate, (2) the Exercise Price or Strike Price with respect to any Award or (3) any applicable performance measures;

(ii) subject to the requirements of Section 409A of the Code, providing for a substitution or assumption of Awards, accelerating the exercisability of, lapse of restrictions on, or termination of, Awards or providing for a period of time for exercise prior to the occurrence of such event; and

(iii) subject to the requirements of Section 409A of the Code, canceling any one or more outstanding Awards and causing to be paid to the holders thereof, in cash, Common Shares, other securities or other property, or any combination thereof, the value of such Awards, if any, as determined by the Committee (which if applicable may be based upon the price per Common Share received or to be received by other stockholders of the Company in such event), including without limitation, in the case of an outstanding Option or SAR, a cash payment in an amount equal to the excess, if any, of the Fair Market Value (as of a date specified by the Committee) of the Common Shares subject to such Option or SAR over the aggregate Exercise Price or Strike Price of such Option or SAR, respectively (it being understood that, in such event, any Option or SAR having a per share Exercise Price or Strike Price equal to, or in excess of, the Fair Market Value of a Common Share subject thereto may be canceled and terminated without any payment or consideration therefor); *provided, however*, that in the case of any “equity restructuring” (within the meaning of the FASB Statement of Financial Accounting Standards No. 123 (revised 2004) or ASC Topic 718, or any successor thereto), the Committee shall make an equitable or proportionate adjustment to outstanding Awards to reflect such equity restructuring. Any adjustment in Incentive Stock Options under this Section 11 (other than any cancellation of Incentive Stock Options) shall be made only to the extent not constituting a “modification” within the meaning of Section 424(h)(3) of the Code, and any adjustments under this Section 11 shall be made in a manner that does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

12. *Change in Control Provisions. Except to the extent provided in an Award Agreement or otherwise by the Committee in accordance with its authority under Section 4, in the event of a Participant’s termination of employment or service without Cause by the Company or an Affiliate within the twelve (12) month period immediately following a Change in Control (such that the Participant’s Awards would otherwise be cancelled (e.g., not be retained in accordance with Section 14(g)), notwithstanding any provision of this Plan to the contrary, with respect to all or any portion of the Participant’s particular outstanding Award or Awards, the following shall apply:*

( a ) *any unvested Options and SARs held by the Participant shall become vested and exercisable on the effective date of such termination; and*

(b) *the Restricted Period applicable to any unvested Restricted Stock, Restricted Stock Units or other Awards held by the Participant shall expire (including without limitation any applicable performance conditions) and such Awards shall be deemed vested on the effective date of such termination.*

The Committee shall also have discretion, in the event of a Change in Control, and subject to the terms of any applicable Award Agreement and compliance with the requirements of Section 409A of the Code, to accelerate the vesting, payment or right to exercise of any Award effective immediately upon the occurrence of the Change in Control and cause the restrictions and forfeiture conditions applicable to any Award to lapse and deem such Awards fully vested and any performance conditions imposed with respect to Awards to be fully achieved.

13. *Amendments and Termination.*

(a) *Amendment and Termination of this Plan.* The Board may amend, alter, suspend, discontinue, or terminate this Plan or any portion thereof at any time; *provided*, that (i) no amendment to the definition of Eligible Person in Section 2(p), Section 5(b), or Section 13(b) (to the extent required by the proviso in such Section 13(b)) shall be made without stockholder approval and (ii) no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to this Plan (including, without limitation, as necessary to comply with any rules or requirements of any national securities exchange or inter-dealer quotation system on which the Common Shares may be listed or quoted); *and, provided, further*, that any such amendment, alteration, suspension, discontinuance or termination that would materially and adversely affect the rights of any Participant or any holder or beneficiary of any Award theretofore granted shall not to that extent be effective without the prior written consent of the affected Participant, holder or beneficiary.

(b) *Amendment of Award Agreements.* The Committee may, to the extent consistent with the terms of any applicable Award Agreement, waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, any Award theretofore granted or the associated Award Agreement, prospectively or retroactively; *provided, however*, that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would materially and adversely affect the rights of any Participant with respect to any Award theretofore granted shall not to that extent be effective without the consent of the affected Participant.

14. *General.*

( a ) *Award Agreements.* Each Award under this Plan shall be evidenced by an Award Agreement, which shall be delivered to the Participant (whether in paper or electronic medium (including email or the posting on a web site maintained by the Company or a third party under contract with the Company)) and shall specify the terms and conditions of the Award and any rules applicable thereto, including without limitation, the effect on such Award of the death, Disability or termination of employment or service of a Participant, or of such other events as may be determined by the Committee. The Company's failure to specify any term of any Award in any particular Award Agreement shall not invalidate such term, provided such terms was duly adopted by the Board or the Committee.

(b) *Nontransferability; Trading Restrictions.*

(i) Each Award shall be exercisable only by a Participant during the Participant's lifetime, or, if permissible under applicable law, by the Participant's legal guardian or representative. No Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant other than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or an Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(ii) Notwithstanding the foregoing, the Committee may, in its sole discretion, permit Awards (other than Incentive Stock Options) to be transferred by a Participant, with or without consideration, subject to such rules as the Committee may adopt consistent with any applicable Award Agreement to preserve the purposes of this Plan, to: (A) any person who is a “family member” of the Participant, as such term is used in the instructions to Form S-8 under the Securities Act (collectively, the “*Immediate Family Members*”); (B) a trust solely for the benefit of the Participant and his Immediate Family Members; (C) a partnership or limited liability company whose only partners or stockholders are the Participant and his Immediate Family Members; or (D) any other transferee as may be approved either (I) by the Board or the Committee in its sole discretion, or (II) as provided in the applicable Award Agreement (each transferee described in clauses (A), (B), (C) and (D) above is hereinafter referred to as a “*Permitted Transferee*”); provided, that the Participant gives the Committee advance written notice describing the terms and conditions of the proposed transfer and the Committee notifies the Participant in writing that such a transfer would comply with the requirements of this Plan.

(iii) The terms of any Award transferred in accordance with subparagraph (ii) above shall apply to the Permitted Transferee and any reference in this Plan, or in any applicable Award Agreement, to a Participant shall be deemed to refer to the Permitted Transferee, except that (A) Permitted Transferees shall not be entitled to transfer any Award, other than by will or the laws of descent and distribution; (B) Permitted Transferees shall not be entitled to exercise any transferred Option unless there shall be in effect a registration statement on an appropriate form covering the Common Shares to be acquired pursuant to the exercise of such Option if the Committee determines, consistent with any applicable Award Agreement, that such a registration statement is necessary or appropriate; (C) the Committee or the Company shall not be required to provide any notice to a Permitted Transferee, whether or not such notice is or would otherwise have been required to be given to the Participant under this Plan or otherwise; and (D) the consequences of the termination of the Participant’s employment by, or services to, the Company or an Affiliate under the terms of this Plan and the applicable Award Agreement shall continue to be applied with respect to the Participant, including, without limitation, that an Option shall be exercisable by the Permitted Transferee only to the extent, and for the periods, specified in this Plan and the applicable Award Agreement.

(iv) The Committee shall have the right, either on an Award-by-Award basis or as a matter of policy for all Awards or one or more classes of Awards, to condition the delivery of vested Common Shares received in connection with such Award on the Participant’s agreement to such restrictions as the Committee may determine.

(c) Tax Withholding.

(i) A Participant shall be required to pay to the Company or any Affiliate, or the Company or any Affiliate shall have the right and is hereby authorized to withhold, from any cash, Common Shares, other securities or other property deliverable under any Award or from any compensation or other amounts owing to a Participant, the amount (in cash, Common Shares, other securities or other property) of any required withholding taxes in respect of an Award, its exercise, or any payment or transfer under an Award or under this Plan and to take such other action as may be necessary in the opinion of the Committee or the Company to satisfy all obligations for the payment of such withholding and taxes. In addition, the Committee, in its discretion, may make arrangements mutually agreeable with a Participant who is not an employee of the Company or an Affiliate to facilitate the payment of applicable income and self-employment taxes.

(ii) Without limiting the generality of clause (i) above, the Committee may, in its sole discretion, permit a Participant to satisfy, in whole or in part, the foregoing withholding liability by (A) the delivery of Common Shares (which are not subject to any pledge or other security interest) owned by the Participant having a fair market value equal to such withholding liability or (B) having the Company withhold from the number of Common Shares otherwise issuable or deliverable pursuant to the exercise or settlement of the Award a number of shares with a fair market value equal to such withholding liability (but no more than the maximum individual statutory rate for the applicable tax jurisdiction).

(d) *No Claim to Awards; No Rights to Continued Employment; Waiver.* No employee of the Company or an Affiliate, or other person, shall have any claim or right to be granted an Award under this Plan or, having been selected for the grant of an Award, to be selected for a grant of any other Award. There is no obligation for uniformity of treatment of Participants or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant and may be made selectively among Participants, whether or not such Participants are similarly situated. Neither this Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ or service of the Company or an Affiliate, nor shall it be construed as giving any Participant any rights to continued service on the Board. The Company or any of its Affiliates may at any time dismiss a Participant from employment or discontinue any consulting relationship, free from any liability or any claim under this Plan, unless otherwise expressly provided in this Plan or any Award Agreement. By accepting an Award under this Plan, a Participant shall thereby be deemed to have waived any claim to continued exercise or vesting of an Award or to damages or severance entitlement related to non-continuation of the Award beyond the period provided under this Plan or any Award Agreement, notwithstanding any provision to the contrary in any written employment contract or other agreement between the Company and its Affiliates and the Participant, whether any such agreement is executed before, on or after the Date of Grant.

(e) *International Participants.* With respect to Participants who reside or work outside of the United States of America, the Committee may in its sole discretion amend the terms of this Plan or outstanding Awards (or establish a sub-plan) with respect to such Participants in order to conform such terms with the requirements of local law or to obtain more favorable tax or other treatment for such Participants, the Company or its Affiliates.

(f) *Designation and Change of Beneficiary.* Unless otherwise provided by the Committee in an Award Agreement, each Participant may file with the Committee a written designation of one or more persons as the beneficiary(ies) who shall be entitled to receive the amounts payable with respect to an Award, if any, due under this Plan upon his death. A Participant may, from time to time, revoke or change his beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation filed with the Committee shall be controlling; *provided, however,* that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by a Participant, the beneficiary shall be deemed to be his spouse or, if the Participant is unmarried at the time of death, his estate. Upon the occurrence of a Participant's divorce (as evidenced by a final order or decree of divorce), any spousal designation previously given by such Participant shall automatically terminate.

(g) Termination of Employment/Service. Unless determined otherwise by the Committee at any point including following such event: (i) neither a temporary absence from employment or service due to illness, vacation or leave of absence nor a transfer from employment or service with the Company to employment or service with an Affiliate (or vice-versa) nor ceasing to serve in any office or capacity for the Company or its Affiliates while continuing to serve in one or more other offices or capacities for the Company or its Affiliates shall be considered a termination of employment or service with the Company or an Affiliate; and (ii) if a Participant's employment with the Company and its Affiliates terminates, but such Participant continues to provide services to the Company and its Affiliates in a non-employee capacity (or vice-versa), such change in status shall not be considered a termination of employment with the Company or an Affiliate for purposes of this Plan unless the Committee, in its discretion, determines otherwise.

(h) No Rights as a Stockholder. Except as otherwise specifically provided in this Plan or any Award Agreement, no person shall be entitled to the privileges of ownership in respect of Common Shares that are subject to Awards hereunder until such shares have been issued or delivered to that person.

(i) Government and Other Regulations.

(i) The obligation of the Company to settle Awards in Common Shares or other consideration shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell, and shall be prohibited from offering to sell or selling, any Common Shares pursuant to an Award unless such shares have been properly registered for sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale under the Securities Act any of the Common Shares to be offered or sold under this Plan. The Committee shall have the authority to provide that all certificates for Common Shares or other securities of the Company or any Affiliate delivered under this Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under this Plan, the applicable Award Agreement, the federal securities laws, or the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or inter-dealer quotation system upon which such shares or other securities are then listed or quoted and any other applicable federal, state, local or non-U.S. laws, and, without limiting the generality of Section 9 of this Plan, the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding any provision in this Plan to the contrary, the Committee reserves the right to add any additional terms or provisions to any Award granted under this Plan that it in its sole discretion deems necessary or advisable in order that such Award complies with the legal requirements of any governmental entity to whose jurisdiction the Award is subject.



(ii) The Committee may cancel an Award or any portion thereof if it determines, in its sole discretion, that legal or contractual restrictions and/or blockage and/or other market considerations would make the Company's acquisition of Common Shares from the public markets, the Company's issuance of Common Shares to the Participant, the Participant's acquisition of Common Shares from the Company and/or the Participant's sale of Common Shares to the public markets, illegal, impracticable or inadvisable. If the Committee determines to cancel all or any portion of an Award in accordance with the foregoing, unless doing so would violate Section 409A of the Code, the Company shall pay to the Participant an amount equal to the excess of (A) the aggregate Fair Market Value of the Common Shares subject to such Award or portion thereof canceled (determined as of the applicable exercise date, or the date that the shares would have been vested or delivered, as applicable), over (B) the aggregate Exercise Price or Strike Price (in the case of an Option or SAR, respectively) or any amount payable as a condition of delivery of Common Shares (in the case of any other Award). Such amount shall be delivered to the Participant as soon as practicable following the cancellation of such Award or portion thereof. The Committee shall have the discretion to consider and take action to mitigate the tax consequence to the Participant in cancelling an Award in accordance with this clause.

(j) *Payments to Persons Other Than Participants.* If the Committee shall find that any person to whom any amount is payable under this Plan is unable to care for his affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or his estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs the Company, be paid to his spouse, child, relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(k) *Nonexclusivity of this Plan.* Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options or other equity-based awards otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

(l) *No Trust or Fund Created.* Neither this Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate, on the one hand, and a Participant or other person or entity, on the other hand. No provision of this Plan or any Award shall require the Company, for the purpose of satisfying any obligations under this Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under this Plan other than as general unsecured creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

( m ) Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in acting or failing to act, as the case may be, and shall not be liable for having so acted or failed to act in good faith, in reliance upon any report made by the independent public accountant of the Company and/or its Affiliates and/or any other information furnished in connection with this Plan by any agent of the Company or the Committee or the Board, other than himself.

( n ) Relationship to Other Benefits. No payment under this Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company except as otherwise specifically provided in such other plan.

( o ) Governing Law. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to the conflict of laws provisions.

( p ) Severability. If any provision of this Plan or any Award or Award Agreement is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or entity or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws in the manner that most closely reflects the original intent of the Award or the Plan, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be construed or deemed stricken as to such jurisdiction, person or entity or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

( q ) Obligations Binding on Successors. The obligations of the Company under this Plan shall be binding upon any successor corporation or organization resulting from the merger, amalgamation, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company.

( r ) Expenses; Gender; Titles and Headings. The expenses of administering this Plan shall be borne by the Company and its Affiliates. Masculine pronouns and other words of masculine gender shall refer to both men and women. The titles and headings of the sections in this Plan are for convenience of reference only, and in the event of any conflict, the text of this Plan, rather than such titles or headings shall control.

( s ) Other Agreements. Notwithstanding the above, the Committee may require, as a condition to the grant of and/or the receipt of Common Shares under an Award, that the Participant execute lock-up, stockholder or other agreements, as it may determine in its sole and absolute discretion.

( t ) Section 409A. The Plan and all Awards granted hereunder are intended to comply with, or otherwise be exempt from, the requirements of Section 409A of the Code. The Plan and all Awards granted under this Plan shall be administered, interpreted, and construed in a manner consistent with Section 409A of the Code to the extent necessary to avoid the imposition of additional taxes under Section 409A(a)(1)(B) of the Code. Notwithstanding anything in this Plan to the contrary, in no event shall the Committee exercise its discretion to accelerate the payment or settlement of an Award where such payment or settlement constitutes deferred compensation within the meaning of Section 409A of the Code unless, and solely to the extent that, such accelerated payment or settlement is permissible under Section 1.409A-3(j)(4) of the Treasury Regulations. If a Participant is a “specified employee” (within the meaning of Section 1.409A-1(i) of the Treasury Regulations) at any time during the twelve (12)-month period ending on the date of his termination of employment, and any Award hereunder subject to the requirements of Section 409A of the Code is to be satisfied on account of the Participant’s termination of employment, satisfaction of such Award shall be suspended until the date that is six (6) months after the date of such termination of employment. In no event shall the Company or any of its Affiliates be liable for any taxes, penalties, interest, or other expenses that may be incurred by a Participant under Section 409A of the Code.

(u) Payments. Participants shall be required to pay, to the extent required by applicable law, any amounts required to receive Common Shares under any Award made under this Plan.

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 September 28, 2018 (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, 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 this Agreement and 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.

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(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 that: (i) a Change in Control occurs and (ii) 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 on the effective 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<sup>th</sup> 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.

2 0 . *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 and the Participant shall be entitled to a liquidated damages amount within thirty (30) days after December 31, 2019 equal to the product of (i) the 30-day volume weighted average price of a share of Stock for the 30 days immediately prior to December 31, 2019 multiplied by (ii) the number of Units that would have otherwise vested on December 31, 2019.

2 1 . *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 Entertainment****Short-Term Incentive Bonus Plan  
Fiscal Year 2018****I. PURPOSE**

The Inspired Entertainment Fiscal Year 2018 Short-Term Incentive Bonus Plan (the "Plan") is intended to provide incentives to certain executive-level employees of Inspired Entertainment, Inc. and its participating affiliates (the "Company") to contribute to the success of the Company in its fiscal year commencing October 1, 2017 and ending September 30, 2018 ("FY 2018"). 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 is subject to the approval of the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") and the Compensation Committee will administer the Plan. The Compensation Committee may appoint appropriate Company personnel to oversee and interpret any and all aspects of the Plan (including the amounts payable to any individual participants). Subject to the terms of the Plan, under the direction of the Compensation Committee the Company's Executive Chairman and principal executive officer ("Principal Executive Officer"), acting jointly (when so acting, or when one of such officers is acting on behalf of both such officers in their joint capacity under the Plan, the "CEO"), shall recommend to the Compensation Committee both the amounts and timings of any bonus payments to be made under the Plan to Covered Employees (as defined below) except for (i) the Executive Chairman, (ii) the Principal Executive Officer, (iii) the Executive Vice President and Chief Strategy Officer, (iv) the Chief Financial Officer and (v) the Chief Commercial Officer, Digital Games (the "NEOs"), as to whom the Compensation Committee shall make determinations without receiving CEO recommendations, unless the Compensation Committee otherwise directs. The Compensation Committee will review and may modify or approve all CEO recommendations, and may make its own recommendations and determinations, including without limitation in respect of any bonus amounts and timings in respect of the NEOs, and shall thereby determine all the amounts and timings of all bonus payments to be made under the Plan.

**III. ELIGIBILITY**

Participants under the Plan will be those executive-level employees of the Company recommended by the CEO and determined by the Compensation Committee to be eligible to receive a bonus under the Plan, except that in the case of each of the NEOs, the CEO shall make no such recommendation as to participation, and by approval of this Plan the Compensation Committee shall have determined that each of them is eligible for participation. If a person is hired for an executive-level position with the Company during the fiscal year, that person may be eligible to receive a prorated portion of the annual bonus, as recommended by the CEO and/or determined by the Compensation Committee, depending on the particular position subject to consideration as further described above. Duly determined participants under the Plan are also referred to herein as "Covered Employees".

An individual must be actively employed by the Company on the day a bonus is paid to be eligible to receive any payment under the Plan.

**IV. FISCAL YEAR**

The Plan will be effective for bonuses awarded in respect of FY 2018.

**V. BONUS POTENTIAL**

After the commencement of the fiscal year, the CEO will recommend and/or the Compensation Committee will determine, depending on the particular position subject to consideration as further described above, for each Plan participant, for FY 2018, a target bonus potential and a maximum bonus potential, each calculated as a percentage of the participant's base salary for FY 2018. The name, target bonus potential and maximum bonus potential of each participant is set forth in Exhibit A attached hereto. Each name, target bonus potential and maximum bonus potential set forth in Exhibit A may be adjusted during the course of FY 2018 to reflect changes in the identities of persons holding a given position or title, changes in the significance, scope, and level of accountability for a given position or title, or the presentation to the Board and/or implementation of a transformative transaction (as such term may reasonably be defined by the Board or the Compensation Committee). Such adjustments, whether increases or reductions, will be recommended by the CEO and/or determined by the Compensation Committee, depending on the particular position subject to consideration as further described above.

**VI. PLAN COMPONENTS**

The funding and payment of bonuses is based upon two separate Plan components: Company performance targets and individual performance targets. The CEO must officially declare that bonuses are payable before any types of payment under the Plan can or will be paid. If and when bonuses are declared, calculations will be made using the two components to determine individual amounts to be paid.

**A. Company Performance Targets**

Certain payments are contingent upon the Company achieving specific Company performance targets as set forth in Exhibit B attached hereto. The CEO has recommended these Company performance targets and the Compensation Committee has reviewed, approved and thereby determined such Company performance targets.

## **B. Individual Performance Targets**

Even if the Company has fully achieved its performance targets, an individual participant's bonus potential can be greatly affected by such participant's levels of achievement in respect of such participant's individual performance targets. The following are examples of criteria that could be used to set individual performance targets: (i) budget management; (ii) cost of service; (iii) quality and service levels; (iv) product line achievements; and (v) leadership/team participation and support. These criteria are examples only and are not an exclusive list of criteria to measure performance.

For each Plan participant other than the NEOs, the CEO shall recommend individual performance targets for FY 2018 (for each Plan participant, "Individual Targets"). The Compensation Committee will review and may modify or approve all such CEO recommended Individual Targets. The Individual Targets will be shared with the participant and maintained in writing by the Company's Human Resources Department. After the completion of FY 2018, the CEO will review each of the participants and his or her levels of achievement of Individual Targets and, as further described in Exhibit B, formulate a recommended bonus for each such participant, based on Company performance targets achieved and Individual Targets achieved. The Compensation Committee will review the CEO's recommendations and, as to each participant, may modify the recommended bonus, and shall thereby determine such participants' bonus amounts.

For each of the NEOs, the Compensation Committee shall determine their Individual Targets. The Individual Targets will be shared with the participant and maintained in writing by the Company's Human Resources Department. After the completion of FY 2018, the Compensation Committee will assess each such participant's achievement of Individual Targets and, as further described in Exhibit B, determine a bonus amount for each such participant.

## **VII. TRANSFER/PROMOTION/DEMOTION**

If a participant is transferred to a new role during FY 2018, the bonus payment for that fiscal year will be calculated based on the actual base earnings the participant received during the relevant portions of that fiscal year in each role at the applicable target percentage(s) for each role.

If a participant becomes ineligible for the Plan due to a transfer, demotion, or promotion, the participant will be eligible to receive a prorated bonus payment based on the period of participation in the Plan. The prorated bonus payment will be paid at the same time as other bonus payments under the Plan.

## **VIII. PAYOUT AND TAXATION**

Bonus payments hereunder shall be made as soon as administratively practicable after the completion of the Company's audited financial statements for the fiscal year; provided, that in no event will a participant be entitled to receive a bonus payment hereunder if the participant's employment with the Company has terminated prior to the date of payment. Further, if an amount is not paid because the Committee, in its reasonable determination (made in accordance with Section 409A of the U.S. Internal Revenue Code of 1986, as amended), determines that doing so would jeopardize the ability of the Company to continue as a going concern, payment of such amount may be delayed provided that the delayed amount is paid in the first taxable year of the participant in which the making of the payment would not have such effect.

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

**IX. INTEGRATION WITH BENEFIT PROGRAMS**

Any bonus payment that a participant receives is not considered compensation for purposes of life insurance, 401(k), disability, or other benefit plans unless specified by the applicable plan document.

**X. CONDITIONS FOR RECEIVING PAYMENT**

No bonus payment will be made to any employee if his or her employment is terminated, whether voluntary or involuntary, prior to the date of payment. However, the Company retains the authority to make exceptions to the foregoing policy in unusual or meritorious cases including, but not limited to, the death of an employee, termination of employment due to total or partial disability, call to active military service, or retirement with the written consent of the Company.

**XI. 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 calendar years following payment hereunder, if and to the extent that the Compensation 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.

**XII. LIMITATIONS AND/OR ADJUSTMENTS**

The Company reserves the right to review, amend, suspend, and/or terminate the Plan, the incentive calculation formulas, and all other aspects of the Plan at any time and in its sole and absolute discretion.

An employee's participation in the Plan shall not be construed as an employment contract or as a promise of continuing employment between the Company and the employee. Employment with the Company is terminable at will subject to the terms of any written services agreement between the Company and the employee and applicable laws.



August 24, 2018

A. Lorne Weil  
250 West 57<sup>th</sup> Street, Suite 2223  
New York, NY 10107

Dear Lorne:

For your records, I am hereby confirming that your annual base salary rate has been increased from \$700,000 to \$750,000 effective October 1, 2018.

This increase was approved by the Board of Directors at its meeting held on August 15, 2018 in recognition of the expanded role you have undertaken in the day-to-day management of the Company following the Company's establishment in May 2018 of the Office of the Executive Chairman.

Please acknowledge receipt of this letter by countersigning and returning a copy at your earliest convenience.

Sincerely yours,

/s/ Carys Damon  
Carys Damon  
General Counsel and Secretary

Acknowledged:

By: A. Lorne Weil  
A. Lorne Weil

Inspired Entertainment, Inc.  
250 West 57<sup>th</sup> Street, Suite 2223, New York, NY 10107  
T: +1 646 565 3861

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## SUBSIDIARIES

Inspired Gaming (USA) Inc.  
Inspired Gaming Limited  
DMWSL 633 Limited  
DMWSL 632 Limited  
DMWSL 631 Limited  
Gaming Acquisitions Limited  
Inspired Gaming Group Limited  
Inspired Gaming (Holdings) Limited  
Inspired Gaming (UK) Limited  
Inspired Gaming (International) Limited  
Virtual Racing Systems Limited  
Inspired Gaming (Gibraltar) Limited  
Revolution Entertainment Systems Holdings Limited  
Revolution Entertainment Systems Limited  
Revolution Entertainment Systems (2) Limited  
MAM Services Limited  
Leisure Link Electronic Entertainment Limited  
Kossway Automatics Western  
Ever 2532 Limited  
Hargreaves Machines Limited  
Sescomatics  
Inspired Technology UK Limited  
Inn Style Leisure  
115CR (150) Limited  
Inspired Gaming (Ventures) Limited  
Inspired Gaming Spain S L  
Inspired Gaming (Colombia) Limited  
Inspired Gaming (Greece) Limited  
Inspired Gaming Mexico S. de RL. de CV  
Inspired Gaming (Italy) Limited  
Inspired Broadcast Networks Limited  
IG Pension Trustees Limited

All subsidiary companies are incorporated in England and Wales with the exception of Inspired Gaming (Gibraltar), Inspired Gaming Spain S L, Inspired Gaming Mexico S. de RL. de CV and Inspired Gaming (USA) Inc. which are incorporated in Gibraltar, Spain, Mexico and Delaware, respectively.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statements of Inspired Entertainment, Inc. on Form S-8 (File Nos. 333-210295, 333-222238 and 333-226909) and Form S-3 (File No. 333-217215) of our report dated December 10, 2018, with respect to our audits of the consolidated financial statements of Inspired Entertainment, Inc. and Subsidiaries as of September 30, 2018 and 2017 and for the periods ended September 30, 2018 and 2017, which report is included in this Annual Report on Form 10-K of Inspired Entertainment, Inc. for the year ended September 30, 2018.

/s/ Marcum llp

Marcum llp  
Melville, NY  
December 10, 2018

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## CERTIFICATION

I, A. Lome Weil, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 10, 2018

/s/ A. Lome Weil  
A. Lome Weil  
Executive Chairman  
(Principal Executive Officer)

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## CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K 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 statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 10, 2018

/s/ Stewart F.B. Baker  
Stewart F.B. Baker,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Annual Report of Inspired Entertainment, Inc. (the "Company") on Form 10-K for the fiscal year ended September 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, A. Lome Weil, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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: December 10, 2018

By: /s/ A. Lome Weil

A. Lome 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.

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**18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Inspired Entertainment, Inc. (the "Company") on Form 10-K for the fiscal year ended September 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Stewart F.B. Baker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §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: December 10, 2018

By: /s/ Stewart F.B. Baker

Stewart F.B. Baker  
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.

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