

**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 **December 31, 2021**

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 415
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:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	INSE	The Nasdaq Stock Market LLC

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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the Nasdaq Capital Market, was approximately \$214.5 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 March 28, 2022, there were 26,880,622 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 2022 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 December 31, 2021. If such proxy statement is not filed on or before such date, 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:

- the persistence of the ongoing global coronavirus (COVID-19) pandemic on our business with respect to the potential duration and frequency of the various government-ordered emergency measures including travel restrictions, social distancing and/or shelter in place orders and closure of retail and leisure, resurgences in various regions and appearances of new variants requiring ongoing reinstitution of such government-ordered emergency measures;
- government regulation of our industries;
- 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;
- our ability to successfully grow by acquisition as well as organically;
- fluctuations due to seasonality;
- 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.

Recent Developments

On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic which affected our retail businesses throughout 2020.

From mid-December 2020 to mid-April 2021, all retail venues were once again closed due to government-mandated shutdowns. Full restrictions did not fall away in the United Kingdom until July 2021 and there remains an element of social distancing in venues in Greece and in Italy.

It remains uncertain as to whether and when further restrictions or closures could happen in each jurisdiction and how long they may last. We continue to protect our existing available liquidity by pro-actively managing capital expenditures and working capital as well as identifying both immediate and longer-term opportunities for cost savings.

Overview

Inspired Entertainment, Inc. (the “Company”, “Inspired”, “we” or “us”) are a global gaming technology company, supplying content, platform and other products and services to online and land-based regulated lottery, betting and gaming operators worldwide through a broad range of distribution channels, predominantly on a business-to-business basis. We provide end-to-end digital gaming solutions (i) on our own proprietary and secure network, which accommodates a wide range of devices, including land-based gaming machine terminals, mobile devices and online computer applications and (ii) through third party networks. Our content and other products can be found through the consumer-facing portals of our interactive customers and, through our land-based customers, in licensed betting offices, adult gaming centers, pubs, bingo halls, airports, motorway service areas and leisure parks.

Our customer base includes regulated operators of lotteries, licensed sports bookmakers, gaming and bingo halls, casinos and regulated online operators, adult gaming centers, pubs, holiday parks, and motorway service areas. 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.), Entain Plc, the Pennsylvania Lottery, Bourne Leisure, Greentube, Stonegate, Mitchells & Butler, Marstons PLC, Greene King, JD Wetherspoon PLC, Parkdean Resort, Centre Parcs Resorts and Novomatic. Geographically, 71% of our revenues (excluding VAT-related revenue) for the year ended December 31, 2021 were generated from our UK operations, with the remainder generated from Italy, Greece and the rest of the world. Our products are designed to operate within applicable gaming and lottery regulations and our customers are regulated gaming or lottery operators or are otherwise licensed to operate our products.

We conduct business across different jurisdictions of which Great Britain, Italy and Greece have historically contributed the most significant recurring revenues. Recently we have begun to conduct a meaningful amount of business in North America as well. We are licensed or certified (as applicable) by the Gambling Commission in the United Kingdom, and by the Hellenic Gaming Commission in Greece, and registered with L’Agenzia delle dogane e dei Monopoli (“ADM”) in Italy. We are licensed by regulators in other jurisdictions such as the Malta Gaming Authority, Licensing Authority of Gibraltar, the Alderney Gambling Control Commission, the Belgian Commission, Autorité Des Marchés Financiers (Quebec), the Romanian National Gambling Office, Oficiul National pentru Jocuri de Noroc and we hold licenses with the US States of California, Connecticut, Illinois, Michigan, Nevada, New Jersey, Oregon, West Virginia and the Canadian provinces of Alberta, Nova Scotia and Saskatchewan. We are currently in the process of applying, or planning to apply, for licensure in additional North American jurisdictions, where we expect to benefit from any future market growth.

We are headquartered in the United States, with principal operating facilities located in the United Kingdom, India and Italy. As of December 31, 2021, we had approximately 1,600 employees, approximately 1,500 of which were full-time. We generated total revenue of \$208.9 million and Adjusted EBITDA of \$64.0 million for the year ended December 31, 2021, despite our business being materially impacted by the COVID-19 global pandemic. For the year ended December 31, 2019 (our last full year prior to COVID-19 impacting our business), we generated total revenue of \$153.4 million and Adjusted EBITDA of \$49.0 million.

The Company is publicly listed on the NASDAQ and had an equity market capitalization of approximately \$342.6 million as of December 31, 2021 (based upon a closing stock price of \$12.96 on that date).

Certain product and company names referred to herein are trademarks™ or registered® trademarks of their respective holders.

Our Products

We operate in four business segments: Gaming, Virtual Sports, Interactive and Leisure, as further described below.

Gaming Segment

Our Gaming segment supplies gaming terminals as well as gaming software and games for the terminals provided to betting offices, casinos, gaming halls and high street adult gaming centers. It utilizes our Server Based Gaming (“SBG”) technology to supply products to our customers’ global land-based gaming venues. SBG products offer an extensive portfolio of games through digital terminals. Our games are currently deployed through more than 31,800 digital terminals. Because our SBG products are fully digital, they interact with a central server and are provided on a “distributed” basis, which allows us to access a wide geographic footprint through internet and proprietary networks.

Our SBG game portfolio includes a broad selection of popular omni-channel slots titles including the Centurion™ game family and Super Hot Fruits™ (featuring the Sizzling Hot Spins™ game family). These games offer customers a wide range of volatilities, return-to-player and other special features, which we collectively refer to as “game math.” We also offer a range of more traditional casino games through our SBG network, such as roulette, blackjack and numbers games.

We distribute games to devices through different game management systems (“GMS”), each tailored to a specific operator or sector. Our CORE™ GMS is designed for distributed street-gaming sectors and uses Inspired cabinets in combination with gaming content from Inspired, as well as a wide portfolio of content from independent game developers. CORE-CONNECT is our American Gaming Association G2S standard-based VLT GMS, currently deployed in the Greek VLT sector and North America. Our SBG products comply with all requirements in the UK (B2/B3), Italy (6B), Greece (G2S) and Illinois (G2S).

Our SBG terminals in the United Kingdom account for a material portion of all SBG terminal placements, and we offer over 100 games for play across this portfolio. We are also a material supplier to customers in Greece and Italy. Over the past two years, we have grown our business in North America where we have sold products in Illinois and to the Western Canada Lottery Corporation. We offer SBG terminals such as the Flex4k curved screen, Eclipse™, Valor™, Optimus™, Blaze™ and Sabre Hydra™, each offering a different size terminal, graphics, technology and price proposition.

As of December 31, 2021, we had a total installed base of 31,891 units, which were operated primarily under participation-based contracts. We generate revenue by participating, typically as a function of gross revenue from each machine, in a percentage of volumes generated by these machines. Because we participate in our customers’ revenues under such contracts, we are aligned with our customers in benefitting from the introduction of our new content, which can drive growth of the win per unit per day of our installed base. Additionally, we earn revenue through the sale of units, as well as receiving a fixed daily fee for some of our installed units. During 2021, we sold 3,372 machines despite many of our customers having operations which were closed for approximately one quarter of 2021. With our participation-driven business model, approximately 94% of service revenue for our Gaming segment was recurring in nature in 2021 (excluding \$3.1 million of VAT-related revenue) and derived under long-term contracts. We have successfully renewed all of our key Gaming contracts expiring over the last three years.

For the year ended December 31, 2021, our Gaming segment generated revenue and Adjusted EBITDA of \$81.4 million and \$26.1 million, respectively (excluding VAT related income), as compared to the year ended December 31, 2020, during which we generated \$110.5 million and \$57.9 million in revenue and Adjusted EBITDA, respectively (excluding VAT related income). We believe the COVID-19 global pandemic impacted this segment during the year ended December 31, 2021 (as well as the prior year) due primarily to government-imposed lockdowns that forced our land-based customers to close during certain periods.

Virtual Sports Segment

Our Virtual Sports business designs, develops, markets and distributes ultra-high-definition games that create an always-on sports wagering experience in betting shops, other locations and online. 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, football or basketball. 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.

We believe we are one of the most innovative suppliers of Virtual Sports gaming products in the world. We offer a wide range of sports and numbers games to approximately 32,000 retail venues as well as through various online websites. Our products are installed in over 20 gaming jurisdictions worldwide, including the UK, Italy, Greece, Turkey, Morocco, and the U.S.

Our Virtual Sports game portfolio includes titles such as V-Play Soccer, V-Play Football, V-Play Basketball, V-Play Baseball, Virtual Grand National and V-Play NFLA, as well as greyhounds, other horse racing products, tennis, motor racing, cycling, cricket, speedway, golf and darts. We have also licensed the use of images of certain sports brands in our games, including with the NFL Alumni. We also entered into a partnership with the UK Jockey Club to create the Virtual Grand National, which has aired on live UK television since 2017. In 2021 we entered into an exclusive licensing agreement with the Major League Baseball Players Alumni Association to create and license a new V-Play HomeRun Shoot-out Legends virtual baseball product.

Our customers are many of the largest operators in lottery, gaming and betting worldwide. We are contracted to supply Virtual Sports to mobile and online operators in the United Kingdom; the U.S. states of Nevada, Pennsylvania and New Jersey; Gibraltar and other regulated EU sectors, including Italy, Greece and Poland; and other jurisdictions such as Turkey and Morocco. 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.

The Virtual Sports events are capable of being offered to millions of our customers' customers, through retail, online and mobile platforms, many of them available 24 hours per day, 7 days per week, and often concurrently within the same location or interactive platform. We have multiple hosting solutions capable of fulfilling the product delivery needs of our customers including our proprietary Virtual Plug and Play end to end online and mobile turnkey solutions. In addition, a cloud-based solution is available to customers who require an XML sportsbook integration that is fully hosted and operated by Inspired.

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. With our participation-driven business model, our Virtual Sports segment produces approximately 94% of total revenue on a recurring basis under long-term contracts for which our standard term is three years in duration. We have successfully renewed all of our key Virtual Sports contracts expiring over the last three years.

For the year ended December 31, 2021, our Virtual Sports segment generated revenue and Adjusted EBITDA of \$36.0 million and \$28.4 million, respectively, as compared to the year ended December 31 2020, during which we generated \$32.4 million and \$25.1 million in revenue and Adjusted EBITDA, respectively. We believe the COVID-19 global pandemic impacted retail revenue for this segment during the year ended December 31, 2021 (as well as the prior year) due primarily to government-imposed lockdowns which forced our retail customers to close during certain periods. We believe that the COVID-19 global pandemic accelerated the market adoption of Virtual Sports through online channels, which enabled us to benefit from market trends in this business during a period in which our retail customers were not operating due to government-imposed lockdowns. Virtual Sports revenue generated through online and mobile channels has increased from \$20.2 million in 2020 to \$26.1 million in 2021.

Interactive Segment

Our Interactive business uses unique interactive-only content as well as offerings from our Gaming and Virtual Sports segments to create games that are hosted on remote gaming servers to allow online gaming operators to use our games and content online and on mobile devices worldwide. Our interactive content includes a wide range of premium random number generated casino content from feature-rich bonus games to European-style casino free spins and table games incorporating well-known first and third-party brands including Space Invaders™, 20p Roulette™, Jagr's Super Slot™, Super Hot Fruits™ and Reel King Megaways™. Inspired releases several new titles per month and new games can be seamlessly deployed to the full estate of operators and aggregators through its proprietary Virgo RGS™. Games are available on over 300 websites across much of regulated Europe including the UK, Gibraltar, Malta, Spain, Sweden, Italy, Germany, the Netherlands, Romania, Greece and Belgium as well as in New Jersey, Michigan and Quebec. We expect to next go live in West Virginia, Pennsylvania, Ontario, Alberta and Connecticut during 2022.

Inspired's Virgo RGS™ is integrated with a number of best known casino brands, including William Hill, Entain, bet365, Flutter, 888, Kindred, Gamesys, BetFred, Rank, Leo Vegas, OPAP and Stoiximan. We are also now live with ten North American operators: Bet MGM, Draft Kings, Caesars, Resorts/Mohegan, Rush Street Interactive, Wynn, Unibet, 888 and Golden Nugget and with Loto Quebec in Canada.

Our Interactive products are typically offered to operators on a participation basis, whereby we receive a percentage of total amount of stakes wagered or a percentage of net gaming revenue. For the year ended December 31, 2021, our Interactive segment generated revenue and Adjusted EBITDA of \$22.8 million and \$13.0 million, respectively. With our participation-driven business model, approximately 100% of revenue for our Interactive segment is recurring in nature and derived under long-term contracts for which our standard term is three years in duration. We have successfully renewed all of our key Interactive contracts expiring over the last three years. We believe the COVID-19 global pandemic accelerated the market adoption of interactive gaming by end-users, and that our EBITDA margins in this segment will expand as our revenue grows due to the low variable costs we expect to incur on incremental revenue, versus our existing base of revenue.

Leisure Segment

We are a supplier of gaming terminals and amusement machines to the Leisure and Hospitality sectors and one of the largest operators of “pay to play” gaming terminals and amusement machines in the UK. As of December 31, 2021, we supplied and operated over 11,600 gaming terminals and 7,000 pool tables, prize vending and jukeboxes located in pubs, bingo halls, and adult gaming centers. We also service approximately 2,200 gaming terminals under maintenance only contracts. The increasing majority of gaming terminals we operate are server based, allowing us to distribute content supplied by our “in house” design studios as well as some of the most popular content titles from our strategic partners. We also manufacture and sell analog machines.

In addition, we also supply and operate approximately 9,300 amusement machines and 2,200 gaming terminals in family entertainment centers and adult gaming centers located in holiday parks, bowling centers and other entertainment venues. These include virtual reality simulators and arcade games, redemption and skill with prize games, basketball, air hockey and cue sports. Commercial arrangements are typically structured as either revenue participations or rental agreements.

Our customers in this segment include the vast majority of recognizable brands that participate in the geographies and sectors in which we operate. These customers include large pub operators JD Wetherspoons, Stonegate Pub Company, Marstons PLC, Greene King, Mitchells and Butler, Punch Taverns, Whitbread and Star Pubs and Bars (Heineken). In the Bingo sector, we supply gaming terminals and services to Buzz Bingo and Mecca. We supply gaming terminals and services to transport hub operators, Moto and Welcome Break and major airports, including Heathrow. We also operate our own adult gaming centers under the Quicksilver brand in Extra Motorway Services. We have joint venture agreements with holiday park operators Parkdean Resorts and Bourne Leisure across their Haven, Butlins and Warner Hotels brands, where we supply machines and trained staff to manage and operate family entertainment centers.

Overall, our Leisure segment had, as of December 31, 2021, an installed base of over 16,000 gaming terminals, which were operated primarily under participation-based contracts. We generate revenue by participating, typically as a function of gross revenue from each machine, in a percentage of volumes generated by these machines. Because we participate in our customers’ revenues under such contracts, we are aligned with our customers in benefitting from the introduction of our new content, which can drive growth in the win per unit per day of our installed base. Additionally, we earn revenue through the sale of units, as well as a fixed daily fee for certain of our installed units. With our participation-driven business model, approximately 96% of revenue for our Leisure segment is recurring in nature and derived under long-term contracts. Since the NTG Acquisition, we have successfully renewed all of our key Leisure contracts expiring over the last three years.

For the year ended December 31, 2021, our Leisure segment generated revenue and Adjusted EBITDA of \$68.7 million and \$15.7 million, respectively. We believe the COVID-19 global pandemic impacted this segment during the year ended December 31, 2021 due primarily to government-imposed lockdowns, which forced our land-based customers to close during certain periods.

Our Strengths

We believe key factors that give us an advantage in the gaming technology space include:

Established presence across multiple Product Verticals

We have a substantial installed base across each of our product verticals, including over 31,800 digital terminals in the Gaming segment located across key jurisdictions in the United Kingdom, Greece, Italy and South America, with approximately 13,700 terminals installed in UK Licensed Betting Offices and approximately 8,700 installed in Greek video lottery terminals (“VLTs”). In our Leisure segment, we supply and operate an installed base of approximately 16,000 gaming terminals (including approximately 2,200 gaming terminals under maintenance only contracts) and 7,000 pool tables, prize vending and jukeboxes to pubs, bingo halls and adult gaming centers. In addition, we also supply and operate approximately 9,300 amusement machines and 2,200 gaming terminals in family entertainment centers located in holiday parks, bowling centers and other entertainment venues. We have award winning content and products in our Virtual Sports segment, which offers a wide range of sports and numbers games through approximately 32,000 retail venues as well as through various online channels. Our Virtual Sports gaming products are installed in approximately 35 gaming jurisdictions worldwide, including the United Kingdom, Italy, Greece, Morocco and the United States, our customers being many of the largest operators of lottery, gaming, and betting operations worldwide. Additionally, our Interactive segment provides a wide range of premium iGaming content to large operators primarily located in the United Kingdom, Italy, Greece and North America, as well as several other countries across Europe through over 170 websites.

Highly Diversified Business Underpinned by Longstanding Customer Relationships

We operate in several business segments and geographic locations that provide us a diversified revenue and cash flow stream that has proven to be resilient under various economic environments. While our Gaming segment has represented the largest proportion of our revenue in each of the last three years, our Virtual Sports and Interactive segments represent substantial growth opportunities as demonstrated by recent trends, including during the COVID-19 global pandemic, which are expected to continue to diversify our business. Additionally, we continue to expand in high growth markets, such as North America, which are expected to drive further geographic diversification across business segments. We have over 600 customers, including major lottery, sports betting and gaming operators (both interactive and location-based) within regulated sectors worldwide. Many of our customer relationships in the UK and European sectors are long-standing and in excess of 10 years. We expect that our diverse customer base will afford us opportunities to sell incremental products to certain of these customers in the future.

Substantial Recurring Revenue Supported by Long-Term Participation-Based Contracts

We believe our robust recurring revenue business model will drive our performance and free cash flow generation. For the year ended December 31, 2021, our recurring revenue, which included revenue generated from participation-based contracts and licensing arrangements, represented 86% of total revenue (87% excluding VAT-related revenue), as compared to approximately 67% of total revenue (84% excluding VAT-related revenue) for the year ended December 31, 2020. Our content and products, which are provided primarily pursuant to long-term contracts, are essential to generating revenue for our customers and satisfying the demand of our end users. Our long-term contracts typically have an initial duration of three to five years depending on the business segment and the customer and, over the last three years, we have successfully renewed all expiring contracts with key customers in our Gaming, Virtual Sports and Interactive segments, and have successfully renewed all expiring contracts with key customers in our Leisure segment since the NTG Acquisition.

Proprietary Technology and Track-Record of Strong Content Development

We are dedicated to being at the forefront of our industry in terms of technology and innovation. We combine complementary expertise in technology and operations, positioning us as a provider of superior technical solutions. As of December 31, 2021, we held approximately 15 patents and approximately 200 trademarks worldwide. We focus our product development efforts on emerging technology trends, utilizing a combination of customer research, design experience and engineering excellence. We are committed to developing innovative products for our customers and are focused on improving player entertainment and customer profitability.

We believe convergence trends in the gaming industry emphasize the importance of proprietary content, including licensed content. Such content is needed to successfully promote a compelling game offering across multiple platforms and to develop distinctive products for operator-clients. Our proprietary content drives engagement across gaming platforms. Our full suite of high-quality gaming products, services and multichannel distribution capabilities, extensive traditional content library, sizeable installed gaming machine base and deep relationships with operator-customers help make us an attractive partner for potential licensors of branded content.

Our Interactive business has expanded rapidly, with revenue growing at an approximate compound annual growth rate of 103% on a functional currency at constant rate basis between 2019 and 2021. We believe this growth has been driven, in part, by our content library of over 100 slot games, many of which have not been extensively distributed previously to interactive operators. Many of our recent game launches, including Maximus Gold Cash™, Rainbow Cashpots™, and Super Hot Fruits™ (a consistent top performer in the Greek market), have been omni-channel, offering a premium player experience across multiple platforms.

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 has been growing fast and has achieved high Adjusted EBITDA margins, while providing an attractive recurring-revenue base. Additionally, this business has benefitted from recent trends, including during the COVID-19 global pandemic, toward online gaming.

Positioned To Benefit From Key Market Trends

With our proprietary digital gaming platform and content comprising an end-to-end product offering and our multi-channel capabilities and robust relationships across the client spectrum, we believe we are well-positioned to benefit from emerging gaming sector trends, including growth stimulated by liberalization of government gaming regulations, the emergence of multi-channel offerings and the increasing importance of proprietary content.

Our multi-channel offerings are well-positioned to benefit from the increased prevalence of smart phones and tablets and the legalization of online gaming in certain parts of the United States, Canada and other jurisdictions. Such jurisdictions have provided new growth opportunities for gaming and lottery operators through the introduction of new channels and portals for delivering games to customers. This supplements the existing broad-based online gambling market across Europe. Our multi-channel solutions and customer relationship management capabilities position us to take advantage of new opportunities to extend our gaming solutions across different channels for our customers to reach new players, expand the player demographic base and access players wherever they are whenever they want to play. Our technology extends play for existing players and has the capability to reach new player segments. This and other technology help position us for future online real-money gaming opportunities by offering play-for-fun online gaming options in jurisdictions where online real-money gaming may be legalized in the future.

Government initiatives, such as the legalization of casino operations in new jurisdictions, increases in the number of casinos allowed to operate in a given jurisdiction and the legalization of new products, have helped stimulate growth in the gaming market. In the United States, legislative change has led to an increase in the legalization of sports betting. As of December 31, 2021, 21 U.S. states and the District of Columbia have legalized sports betting.

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. Other members of the Company's Office of the Executive Chairman (the "OEC") are our President and Chief Operating Officer, Brooks H. Pierce; our Executive Vice President and Chief Strategy Officer, Daniel B. Silvers; our Executive Vice President and Chief Financial Officer, Stewart F.B. Baker, who is currently on a temporary medical leave of absence; our Interim Principal Financial and Accounting Officer, Andrew C. Stone; and our Executive Vice President and General Counsel, Carys Damon. The OEC 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. The members of the OEC have, on average, decades of experience in the gaming industry, including relationships with customers around the world, helping them build and sustain revenue growth. In addition, the members of the OEC have centered their careers on identifying, acquiring and integrating, through the implementation of value creation initiatives, complementary businesses.

Our Strategy

We seek to deliver innovative and differentiated products that provide value to our customers and exciting experiences to their players in multiple jurisdictions throughout the world while achieving long-term growth in revenues, profit and cash flow. We place great emphasis on developing creative solutions, in terms of game content and play that deliver and sustain superior performance through operators across interactive and location-based channels. Our technology often allows us to update our games and operating software remotely, keeping pace with evolving requirements in game play, security, technology and regulations. We seek to achieve these goals as we:

Extend our positions in each of the sectors in which we operate by developing new content and products which can often be utilized across multiple distribution channels.

We continually invest in new content and product development in each of the business segments in which we operate. We believe these investments can benefit our existing and prospective customers by making new content and products available to them and bringing exciting entertainment experiences to their players. Our approach, which seeks to distribute our content across a wide range of channels, protocols and regulatory standards, allows us to distribute our content across multiple sectors in which we operate on a cost-efficient basis. We have continued to focus on channels where we believe there is considerable growth available – especially interactive. We believe our technological approach allows us to quickly adapt to changes in player preferences.

Continue to invest in content and technology in order to grow our existing customers' revenues and penetrate new customers in our existing markets.

Over the last three years, a substantial portion of our annual revenue has been recurring and based on long-term contracts with customers, where our revenues typically grow in line with the growth of our customers' gaming revenues from our content and products. We seek to work closely with our customers to assist in the optimization of their operations so they can achieve growth in their revenues generated by our content and products, which we believe is to our benefit. Accordingly, we continually invest in new content 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. As our content demonstrates successful commercial results, we seek to place it with additional customers who recognize its performance. We believe content development is a key aspect of our strategy and we intend to continue this strategic priority for each of the businesses in which we operate.

Add new customers by expanding into underpenetrated markets.

We believe our historical growth has been driven by our entry into new geographies, and supplemented by increasing our share in existing markets. We expect to continue to focus on North American markets in the Gaming, Virtual Sports and Interactive segments for such expansion. 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, in 2020 and 2021, we placed 313 and 374 VLT terminals, respectively, in North America. We also believe there are likely to be growth opportunities in Latin America which will be available to us in the future.

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

In addition to growing our business organically, we have pursued, and continue to pursue, merger and acquisition opportunities that we believe will help strengthen and scale our operations and take further advantage of our competitive position. 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. For example, in October 2019, we completed the NTG Acquisition which we believe added increased scale to our business while supplementing key technologies and content within our portfolio. In December 2021 we completed the acquisition of Sportech Lotteries, LLC (currently Inspired Entertainment Lotteries LLC), which is our first lottery-focused acquisition, further diversifying our business model on a product, customer, and geographic level.

Our ability to execute the strategy above will be affected by the ongoing COVID-19 global pandemic, which may have further, unexpected effects on the business. We are currently focused on managing our cash flow and liquidity, as well as the segments of our business that remain operational to maximize near term revenues from those segments.

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 the H2 Database, the global gaming and lottery industry has grown at a 10.5% compounded annual growth rate from 2010 to 2020, which has been driven by increased consumer spend and the introduction of new regulated sectors but declined dramatically in 2020 due to land-based venues being closed due to COVID-19 mandated shutdowns and restrictions.

During this period, the digital online and mobile gaming and lottery sectors have grown at a faster pace than the industry as a whole. According to the H2 Database, these industry sectors have grown at a 12.6% compound annual growth rate from 2010 to 2020, driven by rapid growth in the deployment of digital games and technologies, including many of our products, into land-based venues in the primary sectors in which we operate, where regulators have supported the transition to digital, online and retail channels.

Subject to the impact of the COVID-19 global pandemic, we believe the global gaming and lottery industry will return to a growth trajectory, with more robust growth in the digital gaming and lottery sectors, as further described below. 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 distributed gaming (“EDGE”) venues with lottery, gaming and sports betting, combined with online or mobile gaming.

Digital Multi-Channel Offerings: Replacement of legacy analog machines with larger volume of smart digital devices, both interactive and location based. In many established sectors, as existing gaming sectors 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 sectors, mobile play on sports betting and gaming now exceeds such play on personal computers. According to the H2 Database, mobile gaming revenues in such sectors exhibited a 27.0% compound annual growth rate between 2010 and 2020. Mobile gaming and lottery is now expanding in other sectors, and mobile play has recently been approved in other sectors for gaming or lottery.

In addition to the foregoing, we believe there are significant benefits for our customers in adopting digitally networked gaming and lottery technologies. We believe our digitally-enabled products allow 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 often can be phased in without the interim revenue declines 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 party suppliers on an open game interface and reduce procurement risk. Moreover, digital operations can 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, Italy and Greece 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 Greece, the operation of gaming machines and remote gaming is regulated by the Hellenic Gaming Commission. In addition, we are licensed or certified (as applicable) in a number of other jurisdictions by regulators such as the Malta Gaming Authority, Licensing Authority of Gibraltar, the Alderney Gambling Control Commission, the Belgian Commission, Autorité Des Marchés Financiers (Quebec) and state regulators in various jurisdictions in North America.

Great Britain

In the British sector, we supply and distribute Category 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. In addition, we operate a number of Adult Entertainment Centers. We also supply virtual racing software to local retail venues and to online operators who are licensed to target the British sector. We also supply our Interactive product to remote operators who are licensed to target the British sector. The provision of our products and services in relation to the British sector 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 gaming machine general adult gaming center license and a gaming machine general family entertainment center license.

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 failure to do so is an offence). Where gambling software is used or supplied for use in relation to the British sector, 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 provide platform and games for video lottery terminals (“VLTs”), 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 platform and games 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 SOGEI, 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.

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 and supply interactive games and Virtual Sports to online operators in Greece including Stoiximan, OPAP and Novibet.

Greek Betting and Gaming Laws and Regulations: I. According to Article 44 par. 2 of Law 4002/2011, as well as according to HGC's Decisions No 225/2/25.10.2016, 79314/05.08.2020 and 79305/05.08.2020, 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). Moreover, a Suitability Licence is required for suppliers, who are further divided into a) Manufacturers (Art. 11 of the HGC's Decision No 79314/05.08.2020) and b) Importers/Distributors (Art. 12 of the HGC's Decision No 79314/05.08.2020). Accordingly, manufacturers need to obtain a Suitability Licence Type B, while importers/distributors need to obtain a Suitability Licence Type E2.

II. As regards online gaming, Articles 45 -52 of Law 4002/2011, which was recently amended by Law 4639/2019 (Government Gazette A/167/30.10.2019), introduces several new provisions such as the two exclusive types of online licenses for online gaming operators: a) Online Betting Licence; and b) a license for Other Online Games (it covers online casino games and online poker games and variants thereof). Furthermore, Article 14 of the HGC's Decision No 79835/05.08.2020 states that all suppliers have to submit an application to the HGC, accompanied by the required compliance certificates, for the following elements: i. the Gaming Platform (Betting Platform); ii. the Random Number Generator (RNG) per type/group of Games that the Manufacturer offer to each Licence Holder; and iii. each individual game or multigame. Lastly, Suitability Licences for suppliers are also divided into two types: a) Manufacturers Suitability Licence and b) Importers/Distributors Suitability Licence (according to articles 9 and 10 of the HGC's Decision No 79305/05.08.2020). Accordingly, manufacturers need to obtain a Suitability Licence Type A1 or A2 (depending on whether the manufacturer provides management services to the operator or not), while importers/distributors need to obtain a Suitability Licence Type E1.

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, Interactive, Leisure and Gaming business segments. Inspired has a full stack game development structure, combining its proprietary technology frameworks together with some of the industry's best math, art, creative and production personnel spread across 3 game studios (Inspired, Astra and Bell Fruit). We release over 100 games each year onto our own priority gaming system, Interactive RGS and to our G2S clients around the world in markets such as North America, UK, Greece, Spain, Belgium, Italy, Sweden and more. Whilst many of our game launches are omni-channel, we have a focus on building the right game for the right market and take pride in tweaking and modifying the math and themes for the target player. 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. In 2020, we launched the Virtual Plug and Play (VPP) product range. Using our award winning Virtuals assets, with our Interactive RGS and the addition of a Virtuals Bet Management System, VPP gives our operators a Virtuals Sportsbook in a box, with ease of integrations and operation. 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 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, pubs, adult gaming centers, holiday parks and regulated online operators. We typically implement design and content variations to customize their terminals and player experiences. Our license agreements with customers for the provision of machines, content and Virtual Sports products include provisions to protect our intellectual property rights in our games and other content.

Customer Contracts – Gaming

Our contracts in the Gaming segment involve supplying gaming terminals and licensing gaming software and games for the terminals. We supply the terminals on an exclusive or non-exclusive basis for all terminals of a customer or for specific locations. Under these contracts, we have general obligations to deliver, install, upgrade and service the terminals and software. The contracts may be terminated early in various circumstances such as if we fail to meet performance targets in servicing the machines.

Under some contracts, we receive an upfront fee for the provision of the terminals but more typically generate revenue as a percentage of income generated on terminals. With our participation-driven business model, approximately 97% of service revenue (excluding VAT related income) for our Gaming segment is recurring in nature and derived under long-term contracts that are typically between three and five years (although may be shorter for contract extensions). Over the last three years, we have renewed a significant majority of contracts that were expiring.

Customer Contracts – Virtual Sports

Our contracts in the Virtual Sports segment typically involve the supply of licenses to operators to make available, either via online or retail channels, virtual sporting events such as darts, cricket, or basketball, and to enable end-users to place bets on these events. These are typically one-time non-exclusive licenses specific to the virtual sporting event. We may agree to customize and brand the virtual sporting events for the operator or to provide language variations of the event. The contracts may be terminated early in various circumstances, including, for example, if the operator fails to pay an invoice within 60 days of receipt.

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. With our participation-driven business model, our Virtual Sports segment produces approximately 94% of total revenue on a recurring basis under long-term contracts that average four years when entered into and we have historically had a 99% renewal rate over the last three years for contracts that expired.

Customer Contracts – Interactive

Our contracts in the Interactive segment vary but generally involve the provision of a limited, non-exclusive, non-transferable, revocable license to operators to display certain slot and casino content on which online bets are placed or to make our games available for play by end-users of an operator's online gaming business operations. The contracts may be terminated early in various circumstances, including material breach or inability to operate due to a change in regulatory status.

Our Interactive products are typically offered to operators on a participation basis, whereby we receive a percentage of total amount of stakes wagered or a percentage of net gaming revenue. With our participation-driven business model, approximately 99% of revenue for our Interactive segment is recurring in nature and derived under long-term contracts that averaged three years from when we entered into these contracts. Over the last three years, we have renewed approximately 100% of these contracts for those customers that have continued to trade.

Customer Contracts – Leisure

Our contracts in the Leisure segment vary but generally involve (i) agreement whereby the operator or proprietor of certain leisure resorts contributes premises and we provide, on an exclusive basis, gaming and amusement terminals as well as gaming software and games for the machines provided, (ii) contracts to supply gaming terminals as well as gaming software and games for the terminals provided to leisure operators on a non-exclusive basis, and (iii) rental agreements, which we enter into with certain motorway services providers, whereby we rent unit space in motorway service areas and populate this space with our gaming terminals.

Depending on the contract type, we have general obligations to deliver, install, upgrade and service the terminals and software provided, to acquire licensing for the various prizes and toys, which may be used in the terminals, to keep the premises open for minimum operating hours and not to use the premises for certain business. These contracts may be terminated early in various circumstances, including for material breach or insolvency events.

Under our leisure contracts, we typically generate revenue on a participation-basis by participating, typically as a function of gross revenue from each terminal, in a percentage of volumes generated by these terminals. With our participation-driven or fixed weekly fee business model, approximately 100% of service revenue for our Leisure segment is recurring in nature and derived under long-term contracts that are usually between three and five years. Since the NTG Acquisition, within the Leisure segment we have successfully renewed or extended all major contracts that have expired.

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.

As of December 31, 2021, we had approximately 1,600 employees, approximately 1,500 of which were full-time. Of those employees, over 600 were dedicated to delivering our digital gaming platforms, content and manufacturing. Approximately 85 of our employees were assigned to the ongoing operation of our network, through which we supply and maintain our products. Approximately 600 of our employees were involved in UK field operations. Our management, sales and administration teams accounted for approximately 200 employees.

Intellectual Property

Our intellectual property consists principally of the proprietary 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 intellectual property policies regarding how we handle intellectual property. 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.

The terms of our intellectual property registrations vary based on the type of registration and the date and jurisdiction of filing or grant. European and U.K trademark registration lasts for 10 years but can be renewed indefinitely. European and U.K design registration lasts for five years but it can be renewed four times (giving a maximum total of 25 years of protection). European and U.K patents can only be renewed for up to 20 years. U.S. design patents expires 15 years from the date of grant, and the term of utility patents generally expires 20 years from the date of filing of the first non-provisional patent application in a family of patents. The actual protection afforded by a patent depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the applicable country.

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 sectors, which could affect the profitability of the contracts and sales we do win. In certain sectors, our businesses also face competition from suppliers, operators or licensees who offer products for internet gaming in illegal or unregulated sectors, but are still able or permitted to supply products and compete with us in regulated sectors. These competitors often have substantially greater financial resources and operating scale than we do. Some larger competitors hold long term contracts which control access points for some of our products and this may mean we must contract with those competitors rather than directly with the customer to provide our products. 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 sectors and thereby effectively subsidize their regulated operations with unregulated operations.

Corporate Information

We maintain a website at www.inseinc.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act are available free of charge through the Investors link on our website as soon as reasonably practical after they are electronically filed with or furnished to the SEC. Also available on our website are our Code of Ethics, as well as the charters of the audit, compensation and nominating and corporate governance committees of the Board of Directors. Information on our website is not incorporated into this report.

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.

Summary of Risk Factors

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. These risks are discussed more fully below and include, but are not limited to, risks related to the following:

- The ongoing coronavirus (COVID-19) pandemic is adversely affecting our business.
- 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.
- We are dependent on our relationships with key suppliers to obtain equipment and other supplies for our business on acceptable terms.
- The UK Government's impending review of the Gambling Act, together with other rules that may be considered in the UK in response to recent consultations, could have a material negative impact on our business.
- 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 results of operations fluctuate due to seasonality and other factors and, therefore, our periodic operating results are not guarantees of future performance.
- Our industry is subject to strict government regulations that could limit our existing operations and have a negative impact on our ability to grow.
- Our industry is subject to regulations that set parameters for levels of gaming or wagering duty, tax, stake, prize and return to player.
- 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 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.
- Licensing and gaming authorities have significant control over our operations and ownership and could cause us to redeem certain stockholders on potentially disadvantageous terms.
- 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.
- We have operations in a variety of countries, which subjects us to additional risks.

- We may have future capital needs and may not be able to obtain additional financing on acceptable terms.
- 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 sectors may present competitive and regulatory challenges that differ from current ones.
- 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.
- Volatility or disruption in the financial markets could materially adversely affect our business and the trading price of our common stock.
- Global economic conditions could have an adverse effect on our business, operating results and financial condition.
- We face risks and uncertainty arising from the United Kingdom's withdrawal from the European Union.

Risks Relating to Our Business and Industry

The ongoing coronavirus (COVID-19) pandemic is adversely affecting our business.

Our business continues to be affected by the coronavirus (COVID-19) pandemic and future epidemics or pandemics could do the same. Our ability to offer land-based gaming generally has been affected by the closures (and reclosures), for an indeterminate period of time, of all venues that offer gaming in the jurisdictions in which we operate (including, but not limited to, the UK, Greece and Italy, from which we derive a substantial portion of our income). In addition, the economic impact of the pandemic may result in the permanent closure of certain venues and/or a decrease in the willingness or ability of consumers to engage in gambling activities or to be able to access land-based gaming to the same extent, both during and possibly after the pandemic. The pandemic may also adversely affect a broad range of our operations, including our ability to retain and recruit employees, obtain and ship our products, our ability to continue to develop new products and services as effectively when remote working as well as the ability of our customers to pay outstanding amounts due to us. The pandemic and the economic impact on employment may reduce the disposable incomes of players and may result in a decrease in the number of customers willing to visit retail locations. More information about the effect of the COVID-19 pandemic on our business can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Disruption of our supply chain or distribution capabilities have an adverse effect on our business, financial condition, and results of operations.

Our ability to manufacture and ship machines is critical to our success. We are subject to damage or disruption to supplies of parts or our manufacturing or distribution capabilities (in particular, to the extent that our parts are sourced globally) due to weather, including any potential effects of climate change, natural disaster, fire, terrorism, adverse changes in political conditions or political unrest, pandemic, strikes, labor shortages, freight transportation availability, disruption in logistics, import restrictions, or other factors that impair our ability to manufacture or sell our machines. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, adversely affect our business, financial condition, and results of operations, as well as require additional resources to restore our supply chain.

Our results of operations could be adversely affected by labor shortages, turnover, and labor cost increases.

Inflationary pressures, shortages in the labor market, and increased competition within and outside our industry for talented employees have increased our labor costs, which could negatively impact our profitability. Labor shortages or lack of skilled labor have led to increases in costs to meet demand as we roll out incremental programs to attract and retain talent. Labor shortages may also negatively impact us from servicing all demand that exists for our products or operating our service operations and manufacturing facilities efficiently. Further, we distribute our machines and receive parts through the freight transportation market, and reduced trucking capacity due to shortages of drivers has led to increased costs and reduced service levels due to lack of freight transportation availability.

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 sectors, which could affect the profitability of the contracts and sales we do win.

In certain sectors, our businesses also face competition from suppliers, operators or licensees who offer products for internet gaming in illegal or unregulated sectors, but are still able or permitted to supply products and compete with us in regulated sectors. 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, customer contracts in our Gaming, Virtual Sports and Interactive business segments are for initial terms of three to five years, but longer in certain territories, with renewals at the customer's option. Generally, our customer contracts within the Leisure business segment 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 or to reduce machines volumes in 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 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 we 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 gaming terminal customers and certain Virtual Sports customers, make a significant contribution to our revenues and profitability. Our top ten customers generated approximately 60% of total revenues but no one customer generated more than 10% of total revenues in the year ended December 31, 2021. 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 Gaming and Leisure 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. Certain contracts within the Leisure business segment also require injections of capital expenditure during the term for new or replacement hardware.

The UK Government's impending review of the Gambling Act, together with other rules that may be considered in the UK in response to recent consultations, could have a material negative impact on our business.

In December 2020, DCMS announced that it is reviewing the Gambling Act, the consultation period for which closed on March 31, 2021 with the objective of (i) examining whether changes are needed to the system of gambling regulation in Great Britain to reflect changes to the gambling landscape since 2005, particularly due to technological advances (ii) ensuring there is an appropriate balance between consumer freedoms and choice on the one hand, and prevention of harm to vulnerable groups and wider communities on the other and (iii) making sure customers are suitably protected whenever and wherever they are gambling, and that there is an equitable approach to the regulation of the online and the land based industries. There have been a number of similar consultations launched, including a DCMS consultation in relation to fees which closed on March 25, 2021 and a Gambling Commission consultation in relation to Remote Customer Interaction which closed on February 9, 2021. The potential outcomes of such reviews are not currently known but new legislation or regulations could adversely affect our business. A recent example of legislative change implemented by the UK Government which adversely affected our business was the reduction of maximum permitted bets from £100 to £2 on B2 Gaming Machines which became effective as of April 1, 2019. As a result of this change, a number of land-based operators commenced a rationalization of their retail operations, which among other measures led to the closure of certain land-based operator shops.

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. The risk of cyber attacks may also increase owing to the current war in Ukraine.

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 our 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, we are subject to the EU General Data Protection Regulation (the “EU GDPR”) where we are established in the EEA or where we are not established in the EEA but process personal data of individuals in the EEA in relation to the offering of goods or services to, or the monitoring the behavior of, individuals in the EEA.

Following the end of the Brexit Transition Period on December 31, 2020, the EU GDPR has been implemented in the UK as the “UK GDPR”. The requirements of the UK GDPR are (for the time being) virtually identical to those of the EU GDPR.

The EU GDPR and the UK GDPR (collectively the “GDPR”) set out a number of requirements that must be complied with when handling personal data including (amongst others): (i) accountability and transparency requirements, and enhanced requirements for obtaining valid consent; (ii) obligations to consider data protection as any new products or services are developed and to limit the amount of personal data processed; (iii) obligations to comply with data protection rights of data subjects; and (iv) reporting of personal data breaches to the supervisory authority without undue delay (and no later than 72 hours where feasible).

The GDPR also prohibits the international transfer of personal data from the EEA/UK to countries outside of the EEA/UK unless made to a country deemed to have adequate data privacy laws by the European Commission or UK Government or a data transfer mechanism has been put in place. In July 2020, the Court of Justice of the European Union (“CJEU”) in its Schrems II ruling invalidated the EU-US Privacy Shield framework, a self-certification mechanism that facilitated the lawful transfer of personal data from the EEA/UK to the United States, with immediate effect. The CJEU upheld the validity of standard contractual clauses (“SCCs”) as a legal mechanism to transfer personal data but companies relying on SCCs will need to carry out a transfer privacy impact assessment, which among other things, assesses laws governing access to personal data in the recipient country and considers whether supplementary measures that provide privacy protections additional to those provided under SCCs will need to be implemented to ensure an essentially equivalent level of data protection to that afforded in the EU. This may have implications for our cross-border data flows and may result in compliance costs.

In addition, Brexit has implications for transfers of personal data between the UK and the EU and vice versa. Transfers of personal data from the UK to the EU are unrestricted and do not require additional safeguards as the UK has approved the adequacy of the EU and all 12 nations deemed adequate by the EU. As regards transfers of personal data from the EEA to the UK, under the terms of the Trade and Cooperation Agreement agreed between the EU and UK on December 24, 2020, such data flows remain unrestricted as the European Commission granted the UK an “adequacy decision” meaning transfers of personal data from the EEA to the UK may continue unrestricted and would not require any additional safeguards.

Compliance with the GDPR will incur compliance and operational costs. In addition, a data supervisory authority may find our data processing practices and compliance steps to be inconsistent with the GDPR’s application in their respective jurisdiction. Data supervisory authorities also have the power to issue fines for non-compliance of the GDPR of up to 4% of an organization’s annual worldwide turnover or €20m (£17.5 million under the UK GDPR), whichever is higher. Data subjects also have a right to compensation as a result of an organization’s breach of the GDPR that has affected them, for financial or non-financial losses (e.g., distress).

Our results of operations fluctuate due to seasonality and other factors and, therefore, our periodic operating results are not guarantees of future performance.

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. A proportion of our revenues are subject to regular seasonal variations of the sort often related to seasonal consumer behavior, income from the Leisure business segment is generally strongest in the spring and summer, predominantly in Leisure parks, and in Italy and Greece we experience reductions in revenue in the summer.

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 or other Terminals, Virtual Sports betting, betting online, 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 (stricter regulations, including regulation relating to age verification, could come into force which could have adverse impacts on the Company) 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 sectors 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 sectors 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 sector. 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 (which has since been declared invalid by Schrems II), and coming into effect 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 sectors 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 sectors 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 sectors where we are active. There can be no assurance that this opposition will not succeed in either 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 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 may become 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 may become 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 we acquire in the future could limit our future growth, if any.

We continue to pursue expansion and acquisition opportunities in gaming and related businesses. 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 sectors 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 year ended December 31, 2021. In the year ended December 31, 2021, we earned approximately 71% of our revenue from our operations in the UK, 9% of our revenue from our operations in Greece, and 20% of our revenue from our operations in the rest of the world. Our business in foreign markets subjects us to risks customarily associated with such operations, including:

- foreign withholding taxes on, or bank regulatory restrictions on expatriating, our subsidiaries' earnings that could reduce cash flow available to 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;
- 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 our 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 sector areas. There can be no assurance that we will be able to operate on a continuing successful basis in these sectors or in any combination of different geographical sectors.

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 interactive gaming are evolving. To varying degrees, governments have taken steps to change the regulation of interactive 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 interactive gaming, we cannot assure that we will be successful in offering our technology, content and services to interactive 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 interactive 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.

We may be subject to claims or liabilities arising from the ownership or operation businesses we have acquired 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 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.

As of December 31, 2021, our senior debt consisted of an aggregate of £235.0 million (\$316.7 million) of Senior Secured Notes (carrying an interest rate of 7.875% per annum, and maturing on June 1, 2026), and we had £20.0 million (\$27.0 million) of credit facility borrowings available under the RCF Agreement (see Note 13).

The Indenture governing the Senior Secured Notes contains incurrence covenants that limit the ability of the Company and the Company's restricted subsidiaries to, among other things, (i) incur or guarantee additional debt and issue certain preferred stock of restricted subsidiaries; (ii) create or incur certain liens; (iii) make restricted payments, including dividends or distributions to the Company's stockholders or repurchase the Company's stock; (iv) prepay or redeem subordinated debt; (v) make certain investments, including participating joint ventures; (vi) create encumbrances or restrictions on the payment of dividends or other distributions by restricted subsidiaries; (vii) sell assets, or consolidate or merge with or into other companies; (viii) sell or transfer all or substantially all of the Company's assets or those of the Company's subsidiaries on a consolidated basis; (ix) engage in certain transactions with affiliates; and (x) create unrestricted subsidiaries. Certain of these covenants will be suspended if and for so long as the Senior Secured Notes have investment grade ratings from any two of Moody's Investors Service, Inc., Standard & Poor's Investors Ratings Services and Fitch Ratings, Inc. These covenants are subject to exceptions and qualifications as set forth in the Indenture.

The RCF Agreement governing credit facility borrowings contains various covenants (which include restrictions regarding the incurrence of liens, the incurrence of indebtedness by the Company's subsidiaries and fundamental changes, subject in each case to certain exceptions), representations, warranties, limitations and events of default (which include non-payment, breach of obligations under the financing documents, cross-default, insolvency and litigation) customary for similar facilities for similarly rated borrowers and subject to customary carve-outs and grace periods. Following the occurrence of an event of default which has not been waived or remedied, the Lenders who represent more than 66.67% of total commitments under the RCF may, subject to the terms of an intercreditor agreement (which governs the relationship between the Lenders and the holders of the Senior Secured Notes), instruct the agent to (i) accelerate the RCF Loans, (ii) instruct the security agent to enforce the transaction security and/or (iii) exercise any other remedies available to the Lenders.

The RCF Agreement requires that the Company maintain a maximum consolidated senior secured net leverage ratio of 6.25x on the test date for the relevant period ending June 30, 2021, stepping down to 6.0x on March 31, 2022, 5.75x on March 31, 2023 and 5.50x from March 31, 2024 and thereafter (the "RCF Financial Covenant"). The RCF Financial Covenant is calculated as the ratio of consolidated senior secured net debt to consolidated pro forma EBITDA (defined as net loss excluding depreciation and amortization, interest expense, interest income and income tax expense) for the 12-month period preceding the relevant quarterly testing date and is tested quarterly on a rolling basis, subject to the Initial Facility (as defined in the RCF Agreement) being drawn on the relevant test date. The RCF Agreement does not include a minimum interest coverage ratio or other financial covenants.

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 identify and 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 sectors may present competitive and regulatory challenges that differ from current ones.

Our business depends in part on our ability to identify and develop future products and product lines that complement existing products and product lines and that respond to our customers' and players' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the sectors in which it competes or trends in new products. If our new products and product lines do not meet our customers' and players' expectations, or if they are not brought to market in a timely and effective manner, our revenue (especially our revenue under revenue participation-based contracts) and financial performance will be negatively affected. In addition to market factors, our ability to develop new products and their ability to achieve commercial success will depend on a number of factors, including our ability to:

- effectively market our games to our customers and to existing and new players;
- adapt to changing customer needs and player preferences;
- adapt to new technologies;
- adapt game features and contents for an increasingly diverse set of devices and specifications;

- minimize launch delays and cost overruns on the development of new products and features;
- expand and enhance games and content after their initial release;
- attract, retain and motivate talented and experienced game designers, product managers and engineers;
- achieve and maintain player engagement;
- develop games that can build upon or become franchise games;
- maintain quality content and game experience;
- compete successfully against a large and growing number of market participants;
- integrate new products and product lines into our existing business; and
- minimize and quickly resolve bugs or outages.

In addition, if new technologies are protected by the intellectual property rights of others, including our competitors, we may be prevented from introducing new products and product lines based on these technologies or expanding into sectors created by these technologies. Even if we are able to develop new products and product lines that achieve success, it is possible that these products and product lines could divert players of our other games without growing our overall user base, which could harm our operating results. 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. It is difficult to know whether we will succeed in continuing to develop successful new products and product lines.

Our expansion into new sectors 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.

Changes in customer and player preferences could adversely affect our results of operations.

Competition in the gaming industry is intense and subject to rapid change, including changes from evolving customer and player preferences. Accordingly, our success in the gaming industry is dependent on our ability to offer attractive products to our customers and players. In the markets in which we operate, we compete with various other gaming vendors and our customers and players now have access to many other forms of recreational and leisure activities. Our participation-based revenue will depend on the appeal of our gaming offerings to our customers and players relative to our competitors. If we are not able to anticipate and react to changes in customer and player preferences, our competitive and financial position may be adversely affected.

In addition, our future success will also depend on the success of the gaming industry as a whole in attracting and retaining players. Gaming may lose popularity as new leisure activities arise or as other leisure activities become more popular. Alternatively, changes in social mores and demographics could result in reduced acceptance of gaming as a leisure activity. If the popularity of gaming declines for any reason, our business, financial condition and results of operations may be adversely affected.

Our financial success is dependent on our customers’ ability to attract and maintain players.

We have a participation-driven business model, whereby a significant amount of our revenues are generated from the gaming revenue of our customers, typically as a percentage of gross revenue. Accordingly, our results of operation and financial condition have been and are expected to continue to be influenced by the ability of our customers to attract and maintain players. The ability of our customers to attract and maintain players depends on a number of factors, including player gaming preferences, marketing of our products and player perceptions of our customers. If we are unable to provide our customers with products that players find engaging or fail to perform our obligations in maintaining the products we provide to our customers, players may reduce the amount they spend with our customers, which in turn may have an adverse effect on our results of operations (see “—*We may be unable to identify and 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 sectors may present competitive and regulatory challenges that differ from current ones.*”). Under most of our contracts, our customers are under no obligation to market our products and therefore we are dependent on our customers in promoting our products to maintain and attract players. Failure by our customers to effectively market our products may result in decreased gaming revenue for our customers from our products, which may have an adverse effect on our results of operations. Player perception of our customers may also impact the willingness of players to engage with our customers, which in turn may have an adverse effect on our results of operation.

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

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 our common stock and 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 sectors 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 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.

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 and have not paid cash dividends on our common stock to date. 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 sector, 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 sector, 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. On February 16, 2021, the company filed a registration statement pursuant to which the Company may offer and sell from time to time, in one or more series, any one of the following securities of our company, for total gross proceeds up to \$300,000,000:

- common stock;
- preferred stock;
- secured or unsecured debt securities consisting of notes, debentures or other evidences of indebtedness which may be senior debt securities, senior subordinated debt securities or subordinated debt securities, each of which may be convertible into equity securities;
- warrants to purchase our securities;
- rights to purchase any of the foregoing securities; or
- units comprised of, or other combinations of, the foregoing securities.

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;
- designating 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. Any provision of our second amended and restated certificate of incorporation or bylaws, 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 EU 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. 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 and subsequent entry into and ratification of a withdrawal agreement as of January 29, 2020 followed by an agreement of the terms of a trade and cooperation agreement effective as of December 31, 2020. 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 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 and uncertainty arising from the United Kingdom's withdrawal from the European Union.

Following from the United Kingdom's public referendum vote to exit from the European Union in June 2016, a withdrawal agreement was signed by both the United Kingdom and European Union and formally ratified as of January 29, 2020. In accordance with the terms of the agreement, the terms of a trade and cooperation agreement were agreed between officials from the European Union and United Kingdom on December 31, 2020. As with other businesses operating in the UK and Europe, the measures could potentially have corporate structural consequences, adversely affect manufacturing and other costs, 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 outcomes of these provisional and further trade deal 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.

As of December 31, 2021, the Company occupied approximately 240,000 square feet of leased space in the United Kingdom, 3,000 square feet of leased space elsewhere in Europe, 3,200 square feet in New York and 17,000 square feet in Kochi, India. The primary locations were as follows:

- Approximately 40,000 square feet of office space on one floor in Burton-on-Trent, East Midlands, UK.
- Approximately 2,250 square feet of flexible office space in Manchester, UK.
- Approximately 80,000 square feet of administrative offices, workshop and warehousing in Bridgend, South Wales, UK.
- Approximately 2,000 square feet of offices on one floor in Rome, Italy.
- Approximately 17,000 square feet of office space on one floor in Kochi, India.
- Approximately 3,200 square feet of office space on one floor in New York.

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".

Holders

As of March 28, 2022, there were 44 holders of record of our common stock

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Dividends

We do not currently expect to pay cash dividends on our common stock and have not paid cash dividends on our common stock to date. 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.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations. For definitions of the term Forward-Looking Statements, see the definitions provided in the Cautionary Note Regarding Forward-Looking Statements at the start of this Annual Report on Form 10-K for the year ended December 31, 2021.

COVID-19 Operating Restrictions During 2021

Governments in all of the major jurisdictions in which our land-based customers operate have now allowed the reopening of land-based venues, in certain circumstances subject to restrictions.

United Kingdom

Between April 12, 2021 and May 16, 2021, licensed betting offices in England and Wales were permitted to reopen with certain restrictions, including a limitation on operating only two of four gaming machines per venue, limited dwell time of 15 minutes, a maximum of two visits per day per patron and an 8:00pm curfew - these restrictions were removed on May 17, 2021. Gaming machines in pubs, holiday parks, motorway services, Scottish betting offices and adult gaming centers across the United Kingdom were permitted to reopen on May 17, 2021, with social distancing restrictions in place. On July 19, 2021, all social distancing restrictions were removed in England. On August 9, 2021, all remaining restrictions in the remainder of the United Kingdom were removed. In November 2021, the United Kingdom put in place further measures (that remained in place for the balance of 2021), but none of these measures resulted in the closure of any premises in which our land-based customers operate.

Other Jurisdictions

On August 20, 2021, Italy put in place restrictions such that only fully vaccinated people could enter our customers' venues. On September 13, 2021, Greece put similar restrictions in place. These restrictions continue to be in force in both Italy and Greece.

It remains uncertain as to whether and when further restrictions or closures could be implemented in each jurisdiction and how long they may last to the extent they were implemented. We continue to protect our existing available liquidity by pro-actively managing capital expenditures and working capital as well as identifying both immediate and longer-term opportunities for cost savings.

Revenue

We generate revenue in four principal ways: i) on a participation basis, ii) on a fixed rental fee basis, iii) through product sales and iv) through software license fees. Participation revenue generally includes a right to receive a share of our customers' gaming revenue, typically as a share of net win but sometimes as a share of the handle or "coin in" which represents the total amount wagered.

Geographic Range

Geographically, a majority of our revenue is derived from, and majority of our non-current assets are attributable to our UK operations. The remainder of our revenue is derived from, and non-current assets attributable to, Greece and the rest of the world (including North America).

For the twelve months ended December 31, 2021, we derived approximately 71% of our revenue from the UK, 9% from Greece and the remaining 20% across the rest of the world. During the twelve months ended December 31, 2020, we derived approximately 76%, 9% and 15% of our revenue from those regions, respectively.

As of December 31, 2021, our non-current assets (excluding goodwill) were attributable as follows: 73% to the UK, 9% to Greece and 18% across the rest of the world.

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 geographic region in which the largest portion of our business is operated is the UK and the British pound ("GBP") is considered to be our functional currency. Our reporting currency is the U.S. dollar ("USD"). Our results are translated from our functional currency of GBP into the reporting currency of USD using average rates for profit and loss transactions and applicable spot rates for period-end balances. The effect of translating our functional currency into our reporting currency, as well as translating the results of foreign subsidiaries that have a different functional currency into our functional currency, is reported separately in Accumulated Other Comprehensive Income.

During the twelve months ended December 31, 2021, we derived approximately 29% of our revenue from sales to customers outside the UK, compared to 24% during the twelve months ended December 31, 2020.

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

Non-GAAP Financial Measures

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

Results of Operations

Our results are affected by changes in foreign currency exchange rates, primarily between our functional currency (GBP) and our reporting currency (USD). During the twelve-month periods ended December 31, 2021 and December 31, 2020, the average GBP:USD rates were 1.37 and 1.29, respectively.

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 December 31, 2021, compared to the same period in 2020;
- a discussion and analysis of the results of operations for each of the Company’s segments (Gaming, Virtual Sports, Interactive and Leisure) for the twelve-month period ended December 31, 2021, compared to the same period in 2020, including KPI analysis.

In the discussion and analysis below, certain data may vary from the amounts presented in our consolidated financial statements due to rounding. Year-on-year comparisons may not be meaningful due to COVID-19 impacts in both the current and prior periods, as noted above.

For all reported variances, refer to the overall company and segment tables shown below. All variances discussed in the overall company and segment results are on a functional currency (at constant rate) basis, which excludes the impact of any changes in foreign currency exchange rates.

Overall Company Results

Twelve Months ended December 31, 2021, compared to Twelve Months ended December 31, 2020

(In millions)	For the Twelve-Month Period ended		Variance 2021 vs 2020			
	December 31, 2021	December 31, 2020	Variance Attributable to Currency Movement	Variance on a Functional currency basis	Total Functional Currency Variance %	Total Reported Variance %
Revenue:						
Service	\$ 183.3	\$ 178.7	\$ 10.5	\$ (5.9)	(3.3)%	2.6%
Product	25.6	21.1	1.5	3.0	14.4%	21.5%
Total revenue	208.9	199.8	12.0	(2.9)	(1.4)%	4.6%
Cost of Sales, excluding depreciation and amortization:						
Cost of Service	(34.3)	(30.1)	(2.1)	(2.1)	6.8%	13.7%
Cost of Product	(16.4)	(14.4)	(0.9)	(1.1)	7.9%	14.2%
Selling, general and administrative expenses	(97.2)	(84.8)	(5.9)	(6.5)	7.7%	14.7%
Stock-based compensation	(13.0)	(4.8)	(0.8)	(7.4)	155.7%	171.7%
Acquisition and integration related transaction expenses	(1.6)	(7.0)	(0.2)	5.7	(79.2)%	(77.4)%
Depreciation and amortization	(47.0)	(52.3)	(3.3)	8.6	(16.3)%	(10.1)%
Net operating Income (Loss)	(0.6)	6.4	(1.2)	(5.7)	(103.5)%	(109.3)%
Other income (expense)						
Interest expense, net	(44.3)	(30.0)	(3.2)	(11.2)	37.0%	47.9%
Change in fair value of warrant liability	0.9	(3.2)	0.2	3.9	(150.4)%	(127.6)%
Other finance income (expense)	5.7	(4.7)	0.1	10.4	(208.4)%	(221.2)%
Loss from equity method investee	-	(0.5)	(0.0)	0.5	(100.0)%	(100.0)%
Total other income (expense), net	(37.7)	(38.4)	(2.9)	3.6	(9.5)%	(1.9)%
Net Income (loss) from continuing operations before income taxes	(38.3)	(32.1)	(4.1)	(2.1)	6.5%	19.4%
Income tax expense	1.6	(0.4)	0.1	1.9	(518.4)%	(554.0)%
Net Income (Loss)	\$ (36.7)	\$ (32.4)	\$ (4.0)	\$ (0.3)	0.8%	13.2%
Exchange Rate - \$ to £	1.37	1.29				

See “Segments Results” below for a more detailed explanation of the significant changes in our components of revenue within the individual segment results of operations.

Revenue

Consolidated Reported Revenue by Segment

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For the twelve months ended December 31, 2021, revenue on a functional currency (at constant rate) basis decreased by \$2.9 million, or 1.4%.

Gaming revenue decreased by \$33.4 million, due to \$38.6 million of VAT-related revenue during 2020, excluding this, Gaming revenue would have grown by \$5.2m. Virtual Sports, Interactive and Leisure grew by \$1.3 million, \$8.1 million, and \$21.0 million, respectively.

Cost of Sales, excluding depreciation and amortization

Cost of Sales, excluding depreciation and amortization, for the twelve months ended December 31, 2021 increased by \$3.2 million, or 7.2%. Of this increase, \$2.1 million was attributable to cost of Service and \$1.1 million was attributable to cost of Product.

Selling, general and administrative expenses

Selling, general and administrative (“SG&A”) expenses for the twelve months ended December 31, 2021 increased by \$6.5 million, or 7.7%. The increase was driven primarily by the return of furloughed staff for the majority of the period of \$5.9 million, lower labor capitalization of \$1.4 million, and \$1.2 million of additional cost following a settlement with the Italian Tax Authorities in respect of an audit of the Italian Branch of Inspired Gaming (International) Limited for the period 2015-2017 in respect of the historic VAT treatment of supplies. This was partly offset by lower facility and marketing costs of \$2.2 million.

Stock-based compensation

During the twelve months ended December 31, 2021, the Company recorded an expense of \$13.0 million with respect to outstanding awards. The expense included \$5.3 million related to awards made under the 2018 Plan, \$6.6 million (including \$1.4 million of upfront recognition) respectively related to awards made under the 2021 Plan and \$1.1 million related to the vesting of awards from the 2018 Plan. The charge for stock-based compensation for the twelve months ended December 31, 2020, was \$4.8 million. The expense included \$4.5 million related to awards made under the 2018 Plan, \$0.2 million, related to costs from awards made under a 2016 long term incentive plan and \$0.1 million related to the vesting of awards in December 2020.

Acquisition and integration related transaction expenses

Acquisition and integration related transaction expenses decreased by \$5.7 million, to \$1.6 million. All expenses were integration costs in relation to the NTG acquisition.

Depreciation and amortization

Depreciation and amortization decreased for the twelve-month period by \$8.6 million, driven primarily by a decrease in Gaming due to certain assets being fully depreciated.

Net operating income/(loss)

During the twelve-month period, net operating loss was \$0.6 million, a decrease of \$5.7 million. This was attributable primarily to the decrease in Gaming revenue driven by the recognition of VAT-related income in 2020. This was partially offset by increases in revenue in each of our Interactive, Virtuals and Leisure segments, as well as the decrease in acquisition and integration related transaction expenses, facility and marketing costs and depreciation and amortization.

Interest expense, net

Interest expense, net increased by \$11.2 million in the twelve-month period ended December 31, 2021. This increase was due primarily to a \$14.4 million write-off of previously capitalized debt fees following the refinancing in May 2021. Interest on term indebtedness increased by \$1.8 million, but this was offset by currency movement of \$3.2 million, reduction of revolver interest charges of \$0.8 million and lower amortization of capitalized debt fees of \$0.9 million following the refinancing.

Change in fair value of warrant liability

Change in fair value of warrant liability for the twelve-months ended December 31, 2021, resulted in a \$0.9 million gain. The gain related to changes in liability accounting pursuant to the statement made by the Office of Chief Accountant of the SEC, released on April 12, 2021, informing market participants that warrants issued by special purpose acquisition companies may require classification as a liability of the entity measured at fair value, with changes in fair value each period reported in earnings. The credit reflects the decrease in the value of the warrants, driven by a decrease in the Company’s share price and a decrease in the time to warrant expiry, respectively. The warrants expired on December 23, 2021.

Other finance income

Other finance income for the twelve-months ended December 31, 2021, was \$5.7 million. This compares to a \$4.7 million expense in the twelve-months ended December 31, 2020, giving a year-on-year movement of \$10.4 million. Of this increase, \$10.3 million related to the retranslation of the principal balance of our senior debt facilities in place at that time.

Income tax expense

Our effective tax rate for the twelve months ended December 31, 2021, was (4.2%), compared to 1.1% for the twelve months ended December 31, 2020.

Net Income/ (loss)

During the twelve-month period, we had a net loss of \$36.7 million, a decrease of \$0.3 million, primarily due to the decrease in net operating income (\$5.7 million) and the increase in interest expense net (\$11.2 million), partially offset by the decreases in other finance expense of \$10.4 million, change in fair value of warrant liability of \$3.9 million and income tax expense of \$1.9 million.

Segment Results (for the twelve months ended December 31, 2021, compared to the twelve months ended December 31, 2020)

Gaming

We generate revenue from our Gaming segment through the sales and rentals of our gaming machines. We receive rental fees for machines, typically in conjunction with long-term contracts, on both a participation and fixed fee basis. 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 gaming terminals placed in our customers' facilities. Typically, we recognize revenue from these arrangements on a daily basis over the term of the contract.

Revenue growth for our Gaming business is principally driven by changes in (i) the number of operator customers we have, (ii) the number of Gaming machines in operation, (iii) the net win performance of the machines and (iv) the net win percentage that we receive pursuant to our contracts with our customers.

Gaming, Key Performance Indicators

	For the Twelve-Month Period ended		Variance	
	Dec 31, 2021	Dec 31, 2020	2021 vs 2020	%
Gaming				
End of period installed base (# of terminals)	31,891	31,515	376	1.2%
Total Gaming - Average installed base (# of terminals)	31,894	32,069	(174)	(0.5)%
Participation - Average installed base (# of terminals)	29,189	30,165	(976)	(3.2)%
Fixed Rental - Average installed base (# of terminals)	2,705	1,903	802	42.1%
Service Only - Average installed base (# of terminals)	21,563	21,015	548	2.6%
Customer Gross Win per unit per day ^{(1) (2)}	£ 50.7	£ 46.7	£ 4.0	8.5%
Customer Net Win per unit per day ^{(1) (2)}	£ 37.7	£ 34.6	£ 3.2	9.1%
Inspired Blended Participation Rate	6.4%	6.5%	(0.1)%	(2.1)%
Inspired Fixed Rental Revenue per Gaming Machine per week	£ 26.3	£ 26.3	£ 0.0	0.0%
Inspired Service Rental Revenue per Gaming Machine per week	£ 3.4	£ 3.3	£ 0.1	4.4%
Gaming Long term license amortization (£'m)	£ 5.0	£ 5.1	£ (0.1)	(1.9)%
Number of Machine sales	3,372	2,832	540	19.1%
Average selling price per terminal	£ 4,436	£ 4,337	£ 100	2.3%

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

⁽²⁾ Includes all days of the year, including the days during which the Gaming terminals were not operating due to COVID-19 closures.

In the table above:

“End of Period Installed Base” is equal to the number of deployed Gaming terminals at the end of each period that have been placed on a participation or fixed rental basis. Gaming participation revenue, which comprises the majority of Gaming Service revenue, is directly related to the participation terminal installed base. This is the medium by which our customers generate revenue and distribute a revenue share to the Company. To the extent all other KPIs and certain other factors remain constant, the larger the installed base, the higher the Company’s revenue would be for a given period. Management gives careful consideration to this KPI in terms of driving growth across the segment. This does not include Service Only terminals.

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

If the End of Period Installed Base is materially different from the Average Installed Base (described below), we believe this gives an indication as to potential future performance. We believe 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.

“Total Gaming - Average Installed Base” is the average number of deployed Gaming terminals during the period split by Participation terminals and Fixed Rental terminals. Therefore, it is more closely aligned to revenue in the period. We believe this measure is particularly useful for assessing existing customers or markets to provide comparisons of historical size and performance. This does not include Service Only terminals.

“Participation - Average Installed Base” is the average number of deployed Gaming terminals that generated revenue on a participation basis.

“Fixed Rental - Average Installed Base” is the average number of deployed Gaming terminals that generated revenue on a fixed rental basis.

“Service Only - Average Installed Base” is the average number of terminals that generated revenue on a Service only basis.

“Customer Gross Win per unit per day” is a KPI used by our management to (i) assess impact on the Company’s revenue, (ii) determine changes in the performance 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 Gaming 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.

Gaming revenue 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 management believes 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 participation terminals where revenue is earned on a participation basis, weighted by Customer Net Win per unit per day.

“Inspired Fixed Rental Revenue per Gaming Machine per week” is the Company’s average fixed rental amount across all fixed rental terminals where revenue is generated on a fixed fee basis, per unit per week.

“Inspired Service Rental Revenue per Gaming Machine per week” is the Company’s average service rental amount across all service only rental terminals where revenue is generated on a service only fixed fee basis, per unit per week.

“Gaming Long term license amortization” is the upfront license fee per terminal which is typically spread over the life of the terminal.

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

“Number of Machine sales” is the number of terminals sold during the period.

“Average selling price per terminal” is the total revenue in GBP of the Gaming terminals sold divided by the “number of Machine sales”.

Gaming, Recurring Revenue

Set forth below is a breakdown of our Gaming recurring revenue. Gaming recurring revenue principally consists of Gaming participation revenue and fixed rental revenue.

	For the Twelve-Month Period ended		Variance	
	December 31, 2021	December 31, 2020	2021 vs 2020 %	
<i>(In £ millions)</i>				
Gaming Recurring Revenue				
Total Gaming Revenue	£ 59.4	£ 85.1	£ (25.8)	(30.3)%
Gaming Participation Revenue	£ 27.7	£ 25.1	£ 2.6	10.2%
Gaming Other Fixed Fee Recurring Revenue	£ 6.9	£ 7.5	£ (0.6)	(8.3)%
Gaming Long-term license amortization	£ 5.2	£ 5.1	£ 0.0	0.7%
Total Gaming Recurring Revenue *	£ 39.8	£ 37.8	£ 2.0	5.2%
Gaming Recurring Revenue as a % of Total Gaming Revenue †	67.0%	44.4%	22.6%	
Total Gaming excluding VAT related-revenue	£ 57.1	£ 53.1		
Gaming Recurring Revenue as a % of Total Gaming Revenue (excluding VAT related-revenue)	69.7%	71.2%		

* Does not reflect VAT-related revenue.

† Total Gaming Revenue for the twelve-month period ended December 31, 2021, includes the £2.3 million for VAT-related revenue, which is not reflected in Gaming Recurring Revenue for that period. Excluding VAT-related revenue, Gaming Recurring Revenue was 70.9% of Total Gaming Revenue for such period.

In the table above:

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

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

“Gaming Long term license amortization” – see the definition provided above

“Total Gaming Recurring Revenue” is equal to Gaming Participation Revenue plus Gaming Other Fixed Fee Recurring Revenue.

Gaming, Service Revenue by Region

Set forth below is a breakdown of our Gaming service revenue by geographic region. Gaming Service revenue consists principally of Gaming participation revenue, Gaming other fixed fee revenue, Gaming long-term license amortization and Gaming other non-recurring revenue. See “Gaming Segment Revenue” below for a discussion of gaming service revenue between the periods under review.

	For the Twelve-Month Period ended		Variance		
	December 31, 2021	December 31, 2020	2021 vs 2020		Total Functional Currency %
<i>(In millions)</i>					
Service Revenue:					
UK LBO	\$ 30.3	\$ 26.7	\$ 3.7	13.7%	5.7%
UK VAT - Related Income	3.1	42.2	\$ (39.1)	(92.6)%	(92.8)%
UK Other	7.9	6.4	1.5	24.2%	17.9%
Italy	2.2	2.1	0.1	3.9%	(2.0)%
Greece	14.9	14.3	0.6	4.0%	(2.5)%
Rest of the World	0.4	0.6	(0.2)	(32.6)%	(36.0)%
Total Service revenue	\$ 58.8	\$ 92.2	\$ (33.4)	(36.2)%	(39.6)%
<i>Exchange Rate - \$ to £</i>	<i>1.37</i>	<i>1.30</i>			

Note: Exchange rate in the table is calculated by dividing the USD total service revenue by the GBP total service revenue, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

Gaming, key events

Total Gaming Customer Gross Win per unit per day (in our functional currency, GBP) for the period increased by £3.94, or 8.4%. The increase was due primarily to strong UK performance in the three-month period ending June 30, 2021, following the reopening of land-based venues (as more fully described in “COVID-19 Operating Restrictions During 2021” above). Revenues from Greece also grew, primarily driven by our release of new content in the market.

During the period, our land-based customers’ venues in the UK LBO estate exhibited strong year-over-year growth which accounted for the majority of the overall Gross Win per unit per day increase. When venues were operational, revenue performance generally returned to prior year levels in the Greek and Italian markets. During the twelve-month period, land-based venues of our customers across the business were in operation for approximately 65 percent of the time in each of 2020 and 2021.

The overall participation rate for our installed base decreased from 6.5 percent in 2020 to 6.4 percent in 2021. This was due primarily to the COVID-19 restrictions in place in UK venues in 2020 compared to those in place during 2021, as UK share terms typically are lower than the total blended Gaming average.

During the period ended December 31, 2020, Inspired received VAT-related revenue of \$42.2 million from two major UK customers. During the period ended December 31, 2021, Inspired received VAT-related revenue of \$2.9 million from one major UK customer. Receipts in each of 2020 and 2021 were recorded as revenue in our results.

During 2021, we sold 424 VLTs to a major UK customer resulting in revenue of \$2.5 million.

We also upgraded our UK Gaming estate with the installation of 418 “Flex” and 573 “Prismatic” terminals through a combination of outright sales and lease agreements.

Inspired furthered its relationship with a major customer in the Dutch market with the sale and delivery of an additional 415 terminals during 2021.

Inspired also secured a three-year contract extension with a major UK LBO customer for the service of self-service betting terminals (SSBTs), which are placed on a rental basis. Inspired recognized hardware sales for an additional 150 SSBTs during the period, generating revenue of \$0.6 million.

Inspired recognized a 944 VLT hardware sale to a major Italian customer in 2021, generating revenue of \$1.1 million. This completed a 1,624 VLT hardware sale. As part of this transaction, Inspired expects to transition to a content supplier only model during 2022 resulting in meaningful operating expense savings. In conjunction with this transition, Inspired transferred a portion of its operation, including customer contracts and “in country” staff to a major Italian customer at the end of 2021. Inspired expects to continue to provide platform and content services to the customer.

In the North America market, Inspired sold an aggregate of 274 Valor™ terminals to a number of customers in Illinois which increased cumulative North American unit sales to 703 since the December 2019 launch. Land-based venues in Illinois experienced Covid-related shutdowns during January 2021, which negatively impacted sales throughout the year. As of February 2021, each of the eleven regions in Illinois were no longer subject to COVID-related shutdowns.

During the period, Inspired made its first sales to Western Canada Lottery Corporation (WCLC), our second jurisdiction in North America. Inspired recorded the sale of 100 Valor™ terminals to WCLC during March 2021, generating revenue of \$1.5 million.

On December 31, 2021 Inspired completed the acquisition of a lottery business based in the Dominican Republic. The business operates more than 2,500 terminals in various locations. In conjunction with this acquisition, Inspired secured a ten year extension to the agreement to supply the lottery terminals which now runs until March 9, 2035.

Gaming, Results of Operations

(In millions)	For the Twelve-Month Period ended		Variance 2021 vs 2020			
	December 31, 2021	December 31, 2020	Variance Attributable to Currency Movement	Variance on a Functional currency basis	Total Functional Currency Variance %	Total Reported Variance %
Revenue:						
Service	\$ 58.8	\$ 92.2	\$ 3.0	\$ (36.5)	(39.6)%	(36.2)%
Product	22.6	18.3	\$ 1.3	3.0	16.5%	23.8%
Total revenue	81.4	110.5	4.4	(33.4)	(30.3)%	(26.3)%
Cost of Sales, excluding depreciation and amortization:						
Cost of Service	(12.8)	(15.7)	\$ (0.8)	3.8	(23.8)%	(18.9)%
Cost of Product	(14.4)	(12.4)	\$ (0.8)	(1.2)	9.9%	16.6%
Total cost of sales	(27.2)	(28.1)	(1.6)	2.5	(9.0)%	(3.3)%
Selling, general and administrative expenses	(28.1)	(24.5)	\$ (1.7)	(1.8)	7.4%	14.5%
Stock-based compensation	(1.8)	(0.8)	\$ (0.1)	(1.0)	127.1%	140.0%
Depreciation and amortization	(22.5)	(27.6)	\$ (1.6)	6.6	(23.7)%	(18.3)%
Net operating Income (Loss)	\$ 1.8	\$ 29.5	\$ (0.6)	\$ (27.1)	(93.7)%	(93.8)%
Exchange Rate - \$ to £	1.37	1.30				

Note: Exchange rate in the table is calculated by dividing the USD total revenue by the GBP total revenue, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

All variances discussed in the Gaming results below are on a functional currency (at constant rate) basis, which excludes the impact of any changes in foreign currency exchange rates.

Gaming Revenue

During the twelve-month period, Gaming revenue was impacted by COVID-19 closures and restrictions which were imposed upon certain of our customers, with land-based venues across the business being operational for approximately 65% of the time for each of the current and prior year periods. Our UK LBO customers operated at an average of 69% of the time across 2020 and 68% of the time in 2021 with our customers in other UK business lines operating at an average of 62% of the time across both periods. Our Italian and Greek operated at an average of 54% of the time and 57% of the time in 2021 and 2020, respectively.

During the twelve-month period, Gaming revenue decreased by \$33.4 million, or 30.3%. This was driven primarily by a \$38.6 million decrease in VAT-related revenue compared to the prior period. Excluding the VAT-related revenue, Gaming revenue during the twelve-month period increased by \$5.2 million.

During the twelve-month period, Gaming Service revenue (excluding VAT-related revenue) increased by \$2.1 million. This was driven by an increase in the UK market (including LBOs and UK other) of \$2.7 million primarily driven by the timing of COVID-19 closures, with closures and restrictions coming during the first and fourth quarter of the year in 2021 versus the second and fourth quarter in 2020. This was partially offset by declines in Greece of \$0.4 million and Rest of World of \$0.2 million.

Product revenue increased in the twelve-month period by \$3.0 million. This increase was primarily driven by Product sales of \$1.9 million of Valor terminal sales in North America, \$1.0 million in the UK markets, \$0.7 million sales to Italy, partially offset by lower spare sales in Belgium of \$0.4 million.

Gaming Operating Income

Operating Income decreased during the twelve-month period by \$27.1 million.

The decrease in Operating Income in the twelve-month period was primarily due to the decrease of \$37.5 million in VAT-related income compared to the prior period and an increase of \$1.8 million in SG&A as staff returned from furlough or to full salary for a higher proportion of 2021. This was partially offset by the decrease in Cost of Sales of \$2.5 million and a \$6.6 million decrease in depreciation and amortization driven by a decrease in depreciation in the UK LBO and Greece markets. Excluding the VAT-related Income, Operating Income would have increased by \$10.4 million in the period.

Virtual Sports

We generate revenue from our Virtual Sports segment through the licensing of our products. We receive fees in exchange for the licensing of our products, typically on a long-term contract basis, on a participation basis. 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 other promotional costs and any relevant regulatory levies) from Virtual Sports content placed on our customers' websites or in our customers' facilities. Typically, we recognize revenue from these arrangements on a daily basis over the term of the contract.

Revenue growth for our Virtual Sports segment is principally driven by the number of customers we have, the net win performance of the games and the net win percentage that we receive pursuant to our contracts with our customers.

Virtual Sports, Key Performance Indicators

	For the Twelve-Month Period ended		Variance	
	Dec 31, 2021	Dec 31, 2020	2021 vs 2020	
Virtuals				%
No. of Live Customers at the end of the period	61	55	6	10.9%
Average No. of Live Customers	60	58	1	2.6%
Total Revenue (£'m)	£ 26.2	£ 25.2	£ 1.0	3.9%
Total Revenue £'m - Retail	£ 7.2	£ 9.5	£ (2.3)	(23.9)%
Total Revenue £'m - Online Virtuals	£ 19.0	£ 15.7	£ 3.3	20.7%

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

Virtual Sports, Recurring Revenue

Set forth below is a breakdown of our Virtual Sports recurring revenue, which consists of Retail Virtuals and Online Virtuals recurring revenue as well as long-term license amortization. See “Virtual Sports Segment Revenue” below for a discussion of Virtual Sports Service revenue between the periods under review.

	For the Twelve-Month Period ended		Variance	
	December 31, 2021	December 31, 2020	2021 vs 2020 %	
<i>(In £ millions)</i>				
Virtual Sports Recurring Revenue				
Total Virtual Sports Revenue	£ 26.2	£ 25.2	£ 1.0	3.9%
Recurring Revenue - Retail Virtuals	£ 6.8	£ 8.4	£ (1.6)	(18.7)%
Recurring Revenue - Online Virtuals	£ 18.1	£ 13.8	£ 4.4	31.3%
Total Virtual Sports Long-term license amortization	£ 0.8	£ 1.5	£ (0.7)	(48.1)%
Total Virtual Sports Recurring Revenue	£ 25.7	£ 23.7	£ 2.2	8.5%
Virtual Sports Recurring Revenue as a Percentage of Total Virtual Sports Revenue	98.1%	93.9%	4.2%	

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

“Virtual Sports Long term license amortization” is the upfront license fee which is typically spread over the life of the contract.

Virtual Sports, key events

During the twelve months ended December 31, 2021, we launched our Virtual Sports suite of products with BetMGM in New Jersey and OPAP and Novibet in Greece via our new proprietary Virtuals Plug & Play (VPP) platform.

In Greece, US Basketball was deployed into the OPAP retail estate of approximately 3,500 venues.

In Poland, we launched soccer and a mixed sports channel on 250 self serving betting terminals (SSBTs) with Fortuna, which complements our over the counter offer that was previously available. We also launched our Virtual Sports products on their Croatian retail estate consisting of approximately 200 venues and expect this to extend to a further 1,200 SSBTs during 2022.

In Ireland, we deployed our new Horses and Greyhounds products in the approximately 750 venue Paddy Power UK and Irish retail estates.

In Italy, multiple Italian clients, including Snaitech, launched with our new products Penalty Shootout, Matchday Ultra and Marbles. They also made various upgrades to existing products. We also deployed a suite of new content with Eurobet, part of Entain, across its retail and online channels which include approximately 790 retail venues.

A new 5-year contract for a global distribution of Virtual Sports was signed with Entain covering both retail and online channels across multiple jurisdictions.

Our largest online customer, Bet365, launched four channels of our brand-new V-Play Soccer 3 product and we renewed our contract with Bet365 to include the provision of additional products including Baseball, U.S Horses and Women’s Soccer.

We signed new contracts with Mozzarbet (Serbia), Betplay (Colombia), Novibet (Greece), Betshop (Greece), iBet and Fonbet to deliver Virtuals via our new VPP (Virtual Plug and Play) platform, and with Scientific Games for distribution of Virtual Sports via its Open Arena platform.

We also signed a new four-year contract with the Major League Baseball Players Alumni Association (MLBPAA) to allow Inspired to produce a suite of betting and gaming products utilizing the brand and image of MLBPAA members.

During the last twelve-month period, Inspired's Virtual products were shortlisted for the following awards:

- Global Gaming Awards London 2021, in the Retail Supplier of the Year category
- Virtual Sports Supplier and Virtual Sports Innovation at the 2021 SBC Awards
- EGR B2B 2021 in the Lottery Supplier category
- Virtual Sports Supplier and Casino Content Supplier at the 2022 EGR Nordics Awards.

Virtual Sports, Results of Operations

<i>(In millions)</i>	For the Twelve-Month Period ended		Variance 2021 vs 2020			
	December 31, 2021	December 31, 2020	Variance Attributable to Currency Movement	Variance on a Functional currency basis	Total Functional Currency Variance %	Total Reported Variance %
Service Revenue	\$ 36.0	\$ 32.4	\$ 2.4	\$ 1.3	3.9%	11.2%
Cost of Service	(1.9)	(2.9)	(0.1)	1.1	(39.2)%	(34.8)%
Selling, general and administrative expenses	(7.1)	(4.4)	(0.4)	(2.3)	53.8%	63.3%
Stock-based compensation	(0.8)	(0.4)	(0.1)	(0.3)	72.6%	84.7%
Depreciation and amortization	(3.4)	(3.7)	(0.2)	0.5	(14.7)%	(8.1)%
Net operating Income (Loss)	\$ 22.8	\$ 21.0	\$ 1.5	\$ 0.3	1.5%	8.6%
<i>Exchange Rate - \$ to £</i>	<i>1.37</i>	<i>1.28</i>				

Note: Exchange rate in the table is calculated by dividing the USD service revenue by the GBP service revenue, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

All variances discussed in the Virtual Sports results below are on a functional currency (at constant rate) basis, which excludes the impact of any changes in foreign currency exchange rates.

Virtual Sports revenue

During the twelve-month period, revenue increased by \$1.3 million, or 3.9%. This increase was driven by a \$4.2 million increase in Online Virtuals, primarily driven by the growth of one of our major online customers, which was partially offset by a decline in recurring Retail Virtuals of \$2.0 million - driven by the implementation of COVID restrictions in the Italian and Greek markets, allowing only fully vaccinated people to enter our venues, slower UK recovery after venues reopened, regulatory changes in China and Belgium which resulted in no revenue for 2021 and a decline of \$0.9 million from historical license fee amortization related to contracts which expired.

Virtual Sports operating income

Operating Income increased by \$0.3 million during the twelve-month period.

The increase in the period was primarily due to the increase in revenue of \$1.3 million, the decrease in Cost of Sales of \$1.1 million and the decrease in Depreciation and Amortization of \$0.5 million. This was partly offset by the increase in SG&A expenses of \$2.3 million, driven by the \$1.2 million expense from the settlement with the Italian Tax Authorities, an increase in staff costs as staff returned from furlough and to full pay and an increase in technology costs driven by the growth of Online Virtuals.

Interactive

We generate revenue from our Interactive segment through the licensing of our products. Typically, we receive fees in exchange for the licensing of our products, typically on a long-term contract basis, on a participation basis. 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 other promotional costs and any relevant regulatory levies) from Interactive content placed on our customers' websites. Typically, we recognize revenue from these arrangements on a daily basis over the term of the contract.

Revenue growth for our Interactive segment is principally driven by the number of customers we have, the number of live games, the net win performance of the games and the net win percentage that we receive pursuant to our contracts with our customers.

Interactive, Key Performance Indicators

	For the Twelve-Month Period ended		Variance	
	Dec 31, 2021	Dec 31, 2020	2021 vs 2020	%
Interactive				
No. of Live Customers at the end of the period	109	92	17	18.5%
Average No. of Live Customers	100	80	20	25.4%
No. of Live Games at the end of the period	232	208	24	11.5%
Average No. of Live Games	216	196	20	10.0%
Total Revenue (£'m)	£ 16.6	£ 10.3	£ 6.3	60.6%

In the table above:

“No. of Live Customers at the end of the period” and “Average No. of Live Customers” represent the number of customers from which there is Interactive revenue at the end of the period and the average number of customers from which there is Interactive revenue during the period, respectively.

“No. of Live Games at the end of the period” and “Average No. of Live Games” represents the number of games from which there is Interactive revenue at the end of the period and the average number of games from which there is Interactive revenue during the period, respectively.

“Total Revenue (£m)” represents total revenue for the Interactive segment, including recurring and upfront service revenue.

Interactive, Recurring Revenue

Set forth below is a breakdown of our Interactive recurring revenue which consists principally of Interactive participation revenue. See “Interactive Segment Revenue” below for a discussion of Interactive service revenue between the periods under review.

	For the Twelve-Month Period ended		Variance	
	December 31, 2021	December 31, 2020	2021 vs 2020	%
<i>(In £ millions)</i>				
Interactive Recurring Revenue				
Total Interactive Revenue	£ 16.6	£ 10.3	£ 6.3	60.6%
Total Recurring Revenue - Interactive	£ 16.6	£ 10.2	£ 6.4	62.3%
Interactive Recurring Revenue as a Percentage of Total Interactive Revenue	100.0%	98.9%	1.1%	

Interactive, key events

We undertook 44 new brand launches during 2021, including with BetMGM in New Jersey and Michigan, Golden Nugget in Michigan, Gamesys, DraftKings in Michigan, Rush Street Interactive in New Jersey and four brands under The Stars Group. We also launched with Luckia, 888 and Leo Vegas as our first operators in Spain.

During the twelve-month period, we were shortlisted for 15 iGaming awards including: -

- SBC Awards for “Casino / Slots Developer of the Year”
- Gaming Intelligence Awards, “Best iGaming Supplier” and “Best Game of the Year”
- Global Gaming Awards for “Digital Industry Supplier of the Year”
- EGR Operator Awards for “Game of the Year”
- EKG Slot Awards for Top Performing Online Slot
- International Gaming Awards for “Best Game of the Year” and “Best Slot Provider of the Year”
- Global Gaming Awards Las Vegas, for “Digital Industry Supplier of the Year”
- Sigma Europe Gaming Awards for “Online Casino Supplier of the Year” and “Online Slot Games”
- EGR North America Awards for “Casino Content Supplier”
- EGR Nordic Awards for “Casino Content Supplier”
- CasinoBeats Game Developer Awards for “Game Retro Style”
- Women in Gaming Awards for “Leader of the Year” and “Innovator”
- iGB Most Influential Women in 2021, which Claire Osborne, our VP of Interactive, won

We deployed 34 new games in 2021 across the estate including three seasonal titles, four operator-branded games and our own new branded games, including “Space Invaders” and “Big Fishing Fortune”.

Interactive, Results of Operations

<i>(In millions)</i>	For the Twelve-Month Period ended		Variance 2021 vs 2020			
	December 31, 2021	December 31, 2020	Variance Attributable to Currency Movement	Variance on a Functional currency basis	Total Functional Currency Variance %	Total Reported Variance %
Service Revenue	\$ 22.8	\$ 13.3	\$ 1.5	\$ 8.1	60.6%	71.6%
Cost of Service	(3.7)	(1.9)	(0.2)	(1.6)	87.4%	99.4%
Selling, general and administrative expenses	(6.1)	(3.9)	(0.4)	(1.8)	47.0%	55.8%
Stock-based compensation	(0.6)	(0.3)	(0.0)	(0.3)	113.5%	128.2%
Depreciation and amortization	(3.2)	(2.3)	(0.2)	(0.6)	27.3%	36.7%
Net operating Income (Loss)	\$ 9.2	\$ 4.9	\$ 0.6	\$ 3.7	74.2%	87.1%
<i>Exchange Rate - \$ to £</i>	<i>1.37</i>	<i>1.29</i>				

Note: Exchange rate in the table is calculated by dividing the USD service revenue by the GBP service revenue, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

All variances discussed in the Interactive results below are on a functional currency (at constant rate) basis, which excludes the impact of any changes in foreign currency exchange rates.

Interactive revenue

During the twelve-month period, revenue increased by \$8.1 million, primarily driven by recurring revenue growth due to the consistent launch of new content across the estate, growth in the customer base in new, emerging and core markets and increased promotional activity through exclusive deals with tier-one customers.

Interactive operating income

Operating Income increased in the twelve-month period by \$3.7 million.

The increase was primarily due to the increase in revenue (detailed above), partially offset by an increase in cost of sales (\$1.6 million) driven by an increase in third party platform provider costs (in line with the revenue increase for the period) as well as an increase in SG&A expenses (\$1.8 million) driven by the investment in the segment to help drive the increasing revenues.

Leisure

We typically generate revenue from our Leisure segment through the rental of our gaming and amusement machines. We receive rental fees for machines, typically on a long-term contract basis, on both a participation and fixed fee basis, with our newer digital pub machines typically contracted on a fixed fee basis. 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 gaming terminals placed in our customers' facilities. Typically, we recognize revenue from these arrangements on a daily basis over the term of the contract.

Revenue growth for our Leisure segment is principally driven by the number of customers we have, the number of gaming 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.

Leisure, Key Performance Indicators

	For the Twelve-Month Period ended		Variance	
	Dec 31, 2021	Dec 31, 2020	2021 vs 2020	%
Leisure				
End of period installed base Gaming machines (# of terminals)	11,418	11,667	(249)	(2.1)%
Average installed base Gaming machines (# of terminals)	11,576	12,083	(507)	(4.2)%
End of period installed base Other (# of terminals)	6,838	7,193	(355)	(4.9)%
Average installed base Other (# of terminals)	7,080	7,925	(845)	(10.7)%
Pub Digital Gaming Machines - Average installed base (# of terminals)	6,087	5,772	315	5.5%
Pub Analogue Gaming Machines - Average installed base (# of terminals)	2,092	2,570	(478)	(18.6)%
MSA and Bingo Gaming Machines - Average installed base (# of terminals) ⁽¹⁾	3,204	3,461	(257)	(7.4)%
Inspired Leisure Revenue per Gaming Machine per week	£ 36.9	£ 29.2	£ 7.7	26.4%
Inspired Pub Digital Revenue per Gaming Machine per week	£ 36.2	£ 32.8	£ 3.4	10.3%
Inspired Pub Analogue Revenue per Gaming Machine per week	£ 22.5	£ 18.7	£ 3.8	20.1%
Inspired MSA and Bingo Revenue per Gaming Machine per week	£ 50.3	£ 32.4	£ 17.9	55.4%
Inspired Other Revenue per Machine per week	£ 11.0	£ 6.9	£ 4.1	59.0%
Total Leisure Parks Revenue (Gaming and Non Gaming) (£'m)	£ 21.1	£ 9.1	£ 12.0	132%

⁽¹⁾ Motorway Service Area machines

In the table above:

“End of period installed base Gaming” and “Average installed base Gaming” represent the number of gaming machines installed (excluding Leisure park machines) that are Category B and Category C only, from which there is participation or rental revenue at the end of the period or as an average over the period.

“End of period installed base Other” and “Average installed base Other” represent the number of all other category machines installed (excluding Leisure park machines) from which there is participation or rental revenue at the end of the period or as an average over the period.

“Revenue per machine unit per week” represents the average weekly participation or rental revenue recognized during the period.

Leisure, Recurring Revenue

Set forth below is a breakdown of our Leisure recurring revenue which consists principally of Leisure participation revenue and Leisure other fixed fee revenue. See “Leisure Segment Revenue” below for a discussion of leisure service revenue between the periods under review.

	For the Twelve-Month Period ended		Variance	
	December 31, 2021	December 31, 2020	2021 vs 2020	%
<i>(In £ millions)</i>				
Leisure Recurring Revenue				
Total Leisure Revenue	£ 50.0	£ 33.7	£ 16.3	48.3%
Total Leisure Recurring Revenue	£ 47.9	£ 31.6	£ 16.3	51.6%
Leisure Recurring Revenue as a Percentage of Total Leisure Revenue	95.7%	93.5%	2.1%	

Leisure, key events

During the twelve-month period ending December 31, 2021, all major components of the Leisure segment (Pubs, Holiday Parks, Motorway Service Areas and Bingo Halls) remained closed due to the COVID-19 closures in the UK until May 17th, 2021. Venues subsequently reopened with social distancing and other restrictions imposed due to COVID-19. All significant COVID-19 restrictions were removed on July 19, 2021.

After the removal of restrictions, further measures continued to result in frequent amendments to overseas travel policies in the UK. The additional costs and COVID testing requirements added to the uncertainty of overseas travel, resulting in a strong end to the season for our Leisure Parks business. A significant number of locations remained open into November due to increased demand for out-of-season holiday breaks.

The MSA sector also continued to trade strongly due to increased travel within the UK and increasing volume of road transport.

Leisure, Results of Operations

(In millions)

	For the Twelve-Month Period ended		Variance 2021 vs 2020			
	December 31, 2021	December 31, 2020	Variance Attributable to Currency Movement	Variance on a Functional currency basis	Total Functional Currency Variance %	Total Reported Variance %
Revenue:						
Service	\$ 65.7	\$ 40.8	\$ 3.8	\$ 21.0	51.5%	60.9%
Product	3.0	2.8	0.2	0.0	0.2%	7.2%
Total revenue	68.7	43.6	4.0	21.0	48.3%	57.5%
Cost of Sales, excluding depreciation and amortization:						
Cost of Service	(15.9)	(9.6)	(1.0)	(5.3)	55.7%	65.7%
Cost of Product	(2.0)	(2.0)	(0.1)	0.1	(4.1)%	(0.2)%
Total cost of sales	(17.9)	(11.6)	(1.0)	(5.2)	45.3%	54.3%
Selling, general and administrative expenses	(35.1)	(30.8)	(2.1)	(2.3)	7.4%	14.3%
Stock-based compensation	(0.6)	(0.1)	(0.0)	(0.4)	283%	307%
Depreciation and amortization	(16.1)	(16.9)	(1.1)	1.9	(11.1)%	(4.7)%
Net operating Income (Loss)	(1.0)	(15.8)	\$ (0.3)	\$ 15.0	(93.9)%	(93.4)%
<i>Exchange Rate - \$ to £</i>	<i>1.37</i>	<i>1.29</i>				

Note: Exchange rate in the table is calculated by dividing the USD total revenue by the GBP total revenue, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

All variances discussed in the Leisure results below are on a functional currency (at constant rate) basis, which excludes the impact of any changes in foreign currency exchange rates.

Leisure Revenue

For the twelve-month period, revenue increased by \$21.0 million, or 48.3%, as our business benefitted from fewer COVID closures and social distancing restrictions during the period than in the prior year.

Service revenue increased by \$21.0 million, to \$65.7 million. This was driven primarily by leisure park reopenings and the removal of COVID-19 restrictions. Product revenue remained in line with the prior period.

Leisure Operating Loss

Operating Loss for the twelve-month period improved by \$15.0 million, to a loss of \$1.0 million. This was primarily due to the increase in revenue as venues reopened and COVID-19 restrictions were removed, as well as a reduction in depreciation and amortization of \$1.9 million. This was partially offset by increases in cost of sales, of \$5.2 million, and SG&A expenses, of \$2.3 million, due to staff returning from furlough and to full pay.

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 income (loss) excluding depreciation and amortization, interest expense, interest income and income tax expense.

Adjusted EBITDA is defined as net income (loss) excluding depreciation and amortization, interest expense, interest income and income tax expense, and other additional exclusions and adjustments. Such additional excluded amounts include stock-based compensation U.S. GAAP charges where the associated liability is expected to be settled in stock, and changes in the value of earnout liabilities and income and expenditure in relation to legacy portions of the business (being those portions where trading no longer occurs) including closed defined benefit pension schemes. Additional adjustments are made for items considered outside the normal course of business, including (1) restructuring costs, which include charges attributable to employee severance, management changes, restructuring, dual running costs, costs related to facility closures and integration costs, (2) merger and acquisition costs and (3) gains or losses not in the ordinary course of business. This does not include any adjustments related to COVID-19.

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.

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

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

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

Reconciliation to Adjusted EBITDA by segment for the Twelve Months ended December 31, 2021

(In millions)

	For the Twelve-Month Period ended December 31, 2021					
	<u>Total</u>	<u>Gaming</u>	<u>Virtual Sports</u>	<u>Interactive</u>	<u>Leisure</u>	<u>Corporate</u>
Net Income/ (loss)	\$ (36.7)	\$ 1.8	\$ 22.8	\$ 9.2	\$ (1.0)	\$ (69.5)
Items Relating to Legacy Activities:						
Pension charges (1)	0.8	-	-	-	-	0.8
Items outside the normal course of business:						
Acquisition and integration related transaction expenses (3)	1.6	-	-	-	-	1.6
Refinancing of Company Debt (4)	0.8	-	-	-	-	0.8
Italian tax related costs relating to prior years (5)	1.4	-	1.4	-	-	-
Stock-based compensation expense	13.0	1.8	0.8	0.6	0.6	9.2
Depreciation and amortization	47.0	22.5	3.4	3.2	16.1	1.8
Interest expense net	44.3	-	-	-	-	44.3
Change in fair value of warrant liability	(0.9)	-	-	-	-	(0.9)
Other finance expenses / (income)	(5.7)	-	-	-	-	(5.7)
Income tax	(1.6)	-	-	-	-	(1.6)
Adjusted EBITDA	\$ 64.0	\$ 26.1	\$ 28.4	\$ 13.0	\$ 15.7	\$ (19.2)
Adjusted EBITDA	£ 46.7					
Exchange Rate - \$ to £ (7)	1.37					

Note: 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, these are shown in the Corporate category.

Reconciliation to Adjusted EBITDA by segment for the Twelve Months ended December 31, 2020

(In millions)

	For the Twelve-Month Period ended December 31, 2020					
	<u>Total</u>	<u>Gaming</u>	<u>Virtual Sports</u>	<u>Interactive</u>	<u>Leisure</u>	<u>Corporate</u>
Net Income/ (loss)	\$ (32.4)	\$ 29.5	\$ 21.0	\$ 4.9	\$ (15.8)	\$ (72.0)
Items Relating to Legacy Activities:						
Pension charges (1)	0.6	-	-	-	-	0.6
Items outside the normal course of business:						
Costs of group restructure (2)	0.8	-	-	-	-	0.8
Acquisition and integration related transaction expenses (3)	7.0	-	-	-	-	7.0
Impairment on interest in equity method investee(6)	0.7	-	-	-	-	0.7
Stock-based compensation expense	4.8	0.8	0.4	0.3	0.1	3.2
Depreciation and amortization	52.3	27.6	3.7	2.3	16.9	1.8
Interest expense net	30.0	-	-	-	-	30.0
Change in fair value of warrant liability	3.2	-	-	-	-	3.2
Other finance expenses / (income)	4.7	-	-	-	-	4.7
Income tax	0.4	-	-	-	-	0.4
Adjusted EBITDA	\$ 72.1	\$ 57.9	\$ 25.1	\$ 7.5	\$ 1.3	\$ (19.7)
Adjusted EBITDA	£ 55.5					
Exchange Rate - \$ to £ (7)	1.30					

Note: 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, these are shown in the Corporate category.

Notes to Adjusted EBITDA reconciliation tables above:

- (1) "Pension charges" are profit and loss charges included within selling, general and administrative expenses, relating to a defined benefit scheme which was closed to new entrants in 1999 and to future accrual in 2010. As well as the amortization of net loss, the figure also includes charges relating to the Pension Protection Fund (which were historically borne by the pension scheme) and a small amount of associated professional services expenses. These costs are included within Corporate Functions.
- (2) "Costs of group restructure" include redundancy costs, Payments In Lieu of Notice costs, any associated employer taxes and costs associated with onerous property leases. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save ongoing future costs. These costs were primarily incurred in connection with the property consolidation.
- (3) Acquisition and integration related transaction expenses, Stock-based compensation expense, Depreciation and amortization, Total other expense, net and Income tax are as described above in the Results of Operations line item discussions. Total expense, net includes interest income, interest expense, change in fair value of earnout liability, change in fair value of derivative liability and other finance income.
- (4) In May 2021, the Company refinanced its debt. These are the one-off fees as a result of the refinance.
- (5) "Italian tax related costs relating to prior years invoicing" relate to a settlement with the Italian Tax Authorities in respect of an audit of the Italian Branch of Inspired Gaming (International) Limited for the period 2015-2017 in respect of the historic VAT treatment of supplies.
- (6) In April 2020, the Company disposed of its 40% non-controlling equity interest in Innov8 Gaming Limited which resulted in the investment of \$0.7 million being written off.
- (7) Exchange rate in the table is calculated by dividing the USD Adjusted EBITDA by the GBP Adjusted EBITDA, therefore this could be slightly different from the average rate during the period depending on timing of transactions.

Liquidity and Capital Resources

Twelve Months ended December 31, 2021, compared to Twelve Months ended December 31, 2020

(in millions)	12 Months ended		Variance
	Dec 31, 2021	Dec 31, 2020	2021 to 2020
Net loss	\$ (36.7)	\$ (32.4)	\$ (4.3)
Amortization of debt fees	17.2	3.4	13.8
Change in fair value of derivative and warrant liabilities and stock-based compensation expense	13.6	8.9	4.7
Impairment expense	0.0	0.7	(0.7)
Foreign currency translation on senior bank debt and cross currency swaps	(4.6)	5.6	(10.2)
Depreciation and amortization (incl RoU assets)	50.3	55.9	(5.6)
Other net cash (utilized)/generated by operating activities	(33.6)	10.8	(44.4)
Net cash provided by operating activities	6.2	52.9	(46.7)
Net cash used in investing activities	(38.1)	(29.9)	(8.2)
Net cash generated/(used) by financing activities	31.2	(8.2)	39.4
Effect of exchange rates on cash	1.4	3.2	(1.8)
Net increase in cash and cash equivalents	\$ 0.7	\$ 18.0	\$ (17.3)

Net cash provided by operating activities

For the twelve months ended December 31, 2021, net cash inflow provided by operating activities was \$6.2 million, compared to a \$52.9 million inflow for the twelve months ended December 31, 2020, representing a \$46.7 million decrease in cash generation. This decrease was driven primarily by interest timing differences resulting in interest payments of \$30.8 million, compared to \$13.3 million in the prior period, and that the prior period included \$41.9 million of VAT-related income, compared to \$3.2 million in 2021.

Amortization of debt fees increased by \$13.8 million, to \$17.2 million, due to the write-off of capitalized debt fees totaling \$14.4 million in May 2021 in conjunction with the Company's refinancing.

Change in fair value of derivative and warrant liabilities and stock-based compensation expense increased by \$4.7 million, from \$8.9 million to \$13.6 million. Of the increase, \$8.2 million related to stock-based compensation expense and \$0.6 million related to the movement in cross-currency swaps. Movements in the fair valuation of warrant liabilities decreased by \$4.1 million.

Foreign currency translation on senior bank debt and cross currency swaps resulted in a loss of \$4.6 million for the twelve months ended December 31, 2021, as a result of the movement in exchange rates during the period, compared to a \$5.6 million gain for the twelve months ended December 31, 2020.

Depreciation and amortization decreased by \$5.6 million, to \$50.3 million, with reductions of \$3.6 million in machine depreciation, \$1.5 million in amortization of intangible assets and \$0.3 million in both non-machine depreciation and right of use asset amortization.

Other net cash utilized by operating activities decreased by \$44.4 million, to a \$33.6 million outflow following the impact of the COVID-19 closures. Movements due to different timing of interest payments following the May 2021 refinancing have resulted in a \$16.2 million higher outflow in the twelve-months ended December 31, 2021. A higher VAT accrual level at the start of 2021 resulted in a \$11.0 million net adverse movement in the twelve-months ended December 31, 2021. Further adverse movements were also seen on income accrual levels (\$8.4 million), long term receivables (\$2.6 million), prepaid expenses and other current assets (\$3.1 million), deferred revenue (\$2.9 million) and payroll and corporation taxes (\$3.6 million). COVID-19 trading levels have resulted in adverse movements on trade receivables (\$2.1 million) but these were offset by favorable movements on trade payables (\$5.5 million).

Net cash used in investing activities

Net cash used in investing activities increased by \$8.0 million, to \$37.9 million in the twelve-months ended December 31, 2021. This was driven primarily by the \$12.5 million acquisition of Sportech Lotteries LLC which was partially offset by lower spend on plant, property and equipment (\$3.8 million decrease compared to 2020) and capitalized software (\$0.7 million decrease compared to 2020).

Net cash generated by financing activities

During the twelve-months ended December 31, 2021, net cash generated by financing activities was \$31.2 million, compared to a \$8.2 million outflow in the twelve-months ended December 31, 2020. The inflow in the twelve-months ended December 31, 2021, related primarily to the proceeds generated from warrant exercise (\$30.5 million), the net movement from the May 2021 refinancing and finance lease spend of \$0.6 million. During the twelve-months ended December 31, 2020, changes in the level of revolver drawn provided a \$4.2 million outflow as well as \$3.1 million of debt fees incurred and \$0.9 million of finance lease spend.

Funding Needs and Sources

To fund our obligations, historically we have relied on a combination of cash flows provided by operations and the incurrence of additional debt or the refinancing of existing debt. As of December 31, 2021, we had liquidity consisting of \$47.6 million in cash and cash equivalents and a further \$27.0 million of undrawn revolver facility. This compares to \$47.1 million of cash and cash equivalents as of December 31, 2020, with a further \$27.2 million of revolver facilities undrawn. We had a working capital outflow of \$33.6 million for the twelve-months ended December 31, 2021, compared to an \$10.9 million inflow for the twelve-months ended December 31, 2020.

The level of our working capital surplus or deficit varies with the level of machine production we are undertaking and our capitalization as well as the seasonality evident in some of the businesses purchased as part of the NTG Acquisition. In periods with minimal machine volumes and capital spend, our working capital is typically more stable. In periods where significant numbers of machines are being produced, the levels of inventory and creditors are typically higher 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 which have been seen during 2020 and 2021 following the COVID-19 closures, 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.

Some of our business operations require cash to be held within the machines. As of December 31, 2021, \$2.7 million of our \$47.6 million of cash and cash equivalents were held as operational floats within the machines.

Management currently believes that the Company's cash balances on hand, cash flows expected to be generated from operations, and the ability to control and defer capital projects will be sufficient to fund the Company's net cash requirements through March 2023.

Long Term and Other Debt

See Note 13 Long Term and Other Debt of the Financial Statements for detail of the debts held during 2020 and 2021.

Debt Covenants

Under our debt facilities in place as of December 31, 2021, we are not subject to covenant testing on the Senior Secured Notes. We are, however, subject to covenant testing at the level of Inspired Entertainment Inc., the ultimate holding company, on our Super Senior Revolving Credit Facility which requires the Company to maintain a maximum consolidated senior secured net leverage ratio of 6.25x on the test date for the relevant period ending June 30, 2021, stepping down to 6.0x on March 31, 2022, 5.75x on March 31, 2023 and 5.50x from March 31, 2024 and thereafter (the "RCF Financial Covenant"). The RCF Financial Covenant is calculated as the ratio of consolidated senior secured net debt to consolidated pro forma EBITDA (defined as net loss excluding depreciation and amortization, interest expense, interest income and income tax expense) for the 12-month period preceding the relevant quarterly testing date and is tested quarterly on a rolling basis, subject to the Initial Facility (as defined in the RCF Agreement) being drawn on the relevant test date. The RCF Financial Covenant does not include a minimum interest coverage ratio or other financial covenants. Covenant testing at December 21, 2021 showed covenant compliance.

Under our debt facilities in place as of December 31, 2020, we were subject to covenant testing on the Senior Secured Notes. The covenant testing was set at the level of Inspired Entertainment Inc., the ultimate holding company, and consisted of a test on Leverage (Consolidated Total Net Debt/Consolidated Pro Forma EBITDA) and a test on the level of capital expenditure. These were measured under U.S. GAAP. Leverage was tested at quarterly intervals commencing for the period ending June 30, 2020, and capital expenditure was tested annually commencing on December 31, 2019.

Prior to reaching our first leverage covenant test on June 30, 2020, the covenants were reset as a direct result of the impact of COVID-19 on the global economy and subsequent loss of trading as a result of government lockdowns in many key trading countries around the world. Formal agreement of the revised covenants was achieved on June 25, 2020.

There were no breaches of the debt covenants in the periods ended December 31, 2021 or December 31, 2020.

Liens and Encumbrances

As of December 31, 2021, 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 December 31, 2021, our contractual obligations were as follows:

Contractual Obligations (in millions)	Total	Less than 1 yr	1-3 years	3-5 years	More than 5 yrs
Operating activities					
Interest on long term debt	\$ 112.2	\$ 24.9	\$ 49.8	\$ 37.5	\$ -
Financing activities					
Senior bank debt - principal repayment	316.7	-	-	316.7	-
Finance lease payments	2.8	1.0	1.3	0.5	-
Operating lease payments	10.7	3.3	3.7	1.8	1.9
Interest on non-utilisation fees	1.6	0.4	0.8	0.4	-
Total	\$ 444.0	\$ 29.6	\$ 55.6	\$ 356.9	\$ 1.9

Off-Balance Sheet Arrangements

As of December 31, 2021, there were no off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, promulgated by the U.S. Securities and Exchange Commission.

Critical Accounting Policies

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Following the Company’s refinancing in May 2021, the external borrowings of £235.0 million (\$316.7 million) are provided at a fixed rate. Therefore movements in rates such as LIBOR do not impact on the current borrowings and the only fluctuation that is expected to be reported will be that solely caused by movements in the exchange rates between the Company’s functional currency and its reporting currency.

Foreign Currency Exchange Rate Risk

Our operations are conducted in various countries around the world and we receive revenue and pay expenses from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in (i) currencies other than GBP, which is our functional currency, or (ii) the functional currencies of our subsidiaries, which is not necessarily GBP. Excluding intercompany balances, our Euro functional currency net assets total approximately \$11.8 million and our US Dollar functional currency net assets total approximately \$13.8 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 December 31, 2021, would result in favorable translation adjustments of approximately \$1.0 million and \$1.4 million, respectively, recorded in other comprehensive loss.

Included within our trading results are earnings outside of our functional currency. Retained gains earned in Euros and retained losses earned in US Dollars in the twelve-months ended December 31, 2021, were €2.5 million and \$13.3 million, respectively. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of December 31, 2021, would result in translation adjustments of approximately \$0.3 million favorable and \$1.2 million unfavorable, respectively, recorded in trading operations.

The majority of the Company's trading is in GBP, the functional currency, although the reporting currency of the Company is the US Dollar. As such, changes in the GBP:USD exchange rate have an effect on the Company's results. A 10% weakening of GBP against the US Dollar would change the trading operational results favorably by approximately \$2.2 million and would result in favorable translation adjustments of approximately \$10.7 million, recorded in other comprehensive loss.

For further information regarding the new external borrowings, see Note 13 to the Consolidated Financial Statements, "Long Term and Other Debt".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures.

Disclosure controls and procedures are 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 this evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures were not effective, due to the material weakness described below.

In light of this material weakness, we performed additional analysis as deemed necessary to ensure that our financial statements were prepared in accordance with U.S. generally accepted accounting principles. Accordingly, management believes that the financial statements included in this Annual Report on Form 10-K present fairly in all material respects our financial position, results of operations and cash flows for the periods presented.

Management's Report on Internal Control Over Financial Reporting

As required by the SEC rules and regulations relating to 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. This is the first year in which we are required to adopt the enhanced requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002; therefore, this Annual Report on Form 10-K includes an opinion by our external auditors on the effectiveness of internal controls over financial reporting at December 31, 2021 in addition to Management's assessment of the effectiveness of internal controls over financial reporting under the requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002. 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.

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 has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021 based on the criteria set forth in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on that assessment, we identified a material weakness (the "Risk Assessment and Response Material Weakness") related to an ineffective risk assessment and response process.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

The Company has not established an effective control environment due to the ineffective design and implementation of certain process controls, including management review controls. These controls pertain to accounting estimates, account reconciliations and approval processes of some of the Company's significant accounts. These deficiencies represent material weaknesses in the Company's internal control over financial reporting as there is a reasonable possibility that a material misstatement with respect to certain of the Company's significant accounts and disclosures will not be prevented or detected on a timely basis.

Factors contributing to the Risk Assessment and Response Material Weakness included the fact that during 2021, the Company centralized all its finance functions into one location and implemented a new Enterprise Resource Planning ("ERP") System which went live much later in the year than initially planned, as it had to be put on hold due to the impact that the COVID-19 pandemic had on the Company. As a result, there was insufficient time prior to year-end to implement or operate certain controls which were newly designed or re-designed as a result of the impact of the ERP implementation. The Company has also been without its Chief Financial Officer for a period of time due to illness, which required a redistribution of roles and responsibilities, including those related to controls.

Remediation of Material Weakness

Management is taking steps to remediate the Material Weakness, including (1) establishing an executive steering committee to monitor the remediation of the underlying control deficiencies, (2) recruiting an additional SOX specialist to support the Chief Financial Officer and Director of Finance, and (3) process mapping each business process to identify relevant process risk points and re-designing, implementing or strengthening responsive manual and automated controls and underlying evidence of their operation. While management has begun the remediation process, these underlying control deficiencies cannot be considered remediated until the enhanced controls have been re-designed, implemented, and operated effectively for a sufficient period of time.

Changes in Internal Control Over Financial Reporting

Except for the changes noted above, there have been no other 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Adverse Opinion on Internal Control over Financial Reporting

We have audited Inspired Entertainment, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in "Management's Annual Report on Internal Control Over Financial Reporting":

The Company has not established an effective control environment due to the ineffective design and implementation of process controls, including management review controls. These inadequate controls pertain to accounting estimates, account reconciliations and approval processes of the Company's significant accounts. These deficiencies represent a material weakness in the Company's internal control over financial reporting as there is a reasonable possibility that a material misstatement with respect to the Company's significant accounts and disclosures will not be prevented or detected on a timely basis.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the fiscal December 31, 2021 consolidated financial statements, and this report does not affect our report dated December 31, 2021 on those financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets as of December 31, 2021 and 2020 and the related consolidated statements of operations and comprehensive (loss) income, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2021 of the Company and our report dated March 31, 2021 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's 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 the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 degree of compliance with the policies or procedures may deteriorate.

Marcum LLP

New York, NY

March 31, 2021

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

None.

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 2022 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before such date, 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 2022 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before such date, 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 2022 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before such date, 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 2022 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before such date, 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 ACCOUNTANT FEES AND SERVICES.

The information called for by this item is incorporated herein by reference to our definitive proxy statement relating to our 2022 Annual Meeting of Stockholders, which will be filed with the SEC. If such proxy statement is not filed on or before such date, 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 15. EXHIBITS AND 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 listed on [page 63](#).

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020

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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 December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of March 31, 2021, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, expressed an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of the existence material weaknesses.

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 PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition – Use of IT Systems to track and invoice revenue and the determination of the various promises in the arrangement

Certain of the Company’s revenue contracts with customers include multiple promises (such as hardware, software and maintenance, among others). The Company is required to evaluate whether each promise represents a performance obligation. The evaluation of whether promises are both capable of being distinct in the context of a contract (and thus constitute performance obligations) can require significant judgment and could change the amount of revenue recognized in a given period.

We identified the determination of performance obligations for contracts with higher contract values as a critical audit matter because of the judgments and estimates management makes to evaluate such contracts and the impact of such judgments on the amount of revenue recognized in a given period. This required a high degree of auditor judgment and an increased extent of testing.

Addressing the matter involved performing procedures on a sample basis and evaluation of audit evidence that included, among others

- Evaluating contract terms and conditions,
- Reviewing and assessing the methodology applied and testing the reliability and mathematical accuracy of the underlying data and calculations,
- Testing management's identification of performance obligations by evaluating whether the promises were both capable of being distinct and distinct within the context of the contract, including reading the selected contracts and inquiring of certain of the Company's accounting and operations personnel to understand the nature of the promises and how they are delivered to the customer, and
- Evaluating and concluding on the reasonableness of management's judgments and estimates.

We involved IT professionals with specialized skills and knowledge, who assisted in evaluating the sufficiency of the audit evidence obtained related to:

- General IT controls and IT application controls for the relevant IT systems used to gather and process data,
- The transfer of information among the different systems used to gather the data, and
- The configuration and change management controls for the reports that were used from the various systems to determine the amount of revenue recognized.

Capitalization of Internally and Externally Developed Software

The Company classifies software development costs as either internal use software or external use software, any costs incurred during preliminary project stages are expensed as incurred; 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, the Company amortizes the capitalized cost of the software over its economic useful life, which ranges from two to five years. During the year ended December 31, 2021, the Company capitalized \$9,900,000 of software development costs.

We identified the evaluation of the Company's capitalization of internal direct labor costs as a critical audit matter. There were inherent challenges in obtaining an understanding of the structure of systems and processes used to capture the large volumes of internal direct labor data. Furthermore, subjective judgement was required to evaluate the relevant data that was captured and aggregated, and to assess the sufficiency of the audit evidence obtained.

The primary procedures we performed to address this critical audit matter included the following. We involved IT professionals with specialized skills and knowledge, who assisted in evaluating the sufficiency of the audit evidence obtained related to:

- General IT controls and IT application controls for the relevant IT systems used to gather and process data,
- The transfer of information among the different systems used to gather the data, and
- The configuration and change management controls for the reports that were used from the various systems to determine the amount of internal direct labor costs to capitalize.

In addition, we evaluated, on a sample basis, the Company's manual aggregation of information from various IT systems, to determine the sufficiency of the audit evidence obtained, by:

- Inspecting the capital project codes to assess that the nature of the activity is capitalized in accordance with U.S. generally accepted accounting principles,

- Comparing salary and wage information for capitalized internal direct labor costs to employee human resource documents and system profiles,
- Comparing the hours of capitalized internal direct labor to the hours recorded to capital activities on the employees' timesheets,
- Inquiring of employees and project managers as to the accuracy of the hours reflected as capital activities on the employee timesheets, and
- Evaluating the methodology used to determine the labor rates and comparing the cost types, dates incurred, and amounts of labor costs used to derive the labor rates to data from the source systems.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2016

New York, NY
March 31, 2022

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

	December 31, 2021	December 31, 2020
Assets		
Cash	\$ 47.8	\$ 47.1
Accounts receivable, net	31.7	27.5
Inventory, net	16.9	17.6
Prepaid expenses and other current assets	29.7	16.8
Corporate tax and other current taxes receivable	0.3	—
Total current assets	126.4	109.0
Property and equipment, net	50.9	65.5
Software development costs, net	35.6	42.4
Other acquired intangible assets subject to amortization, net	18.9	7.7
Goodwill	82.7	83.7
Operating lease right of use asset	10.1	12.5
Other assets	7.1	3.3
Total assets	\$ 331.7	\$ 324.1
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 20.8	\$ 15.8
Accrued expenses	32.6	31.4
Corporate tax and other current taxes payable	12.3	14.4
Deferred revenue, current	7.7	11.5
Operating lease liabilities	3.3	3.6
Other current liabilities	3.9	4.6
Warrant liability	—	13.0
Current portion of finance lease liabilities	0.9	0.6
Total current liabilities	81.5	94.9
Long-term debt	309.0	297.5
Finance lease liabilities, net of current portion	1.9	0.2
Deferred revenue, net of current portion	6.8	11.4
Derivative liability	—	1.7
Operating lease liabilities	7.4	9.2
Other long-term liabilities	3.1	10.9
Total liabilities	409.7	425.8
Commitments and contingencies		
Stockholders' deficit		
Preferred stock; \$0.0001 par value; 1,000,000 shares authorized	—	—
Common stock; \$0.0001 par value; 49,000,000 shares authorized; 26,433,562 shares and 22,430,475 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid in capital	372.3	324.6
Accumulated other comprehensive income	43.8	31.1
Accumulated deficit	(494.1)	(457.4)
Total stockholders' deficit	(78.0)	(101.7)
Total liabilities and stockholders' deficit	\$ 331.7	\$ 324.1

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenue:			
Service	\$ 183.3	\$ 178.7	\$ 134.5
Product sales	25.6	21.1	18.9
Total revenue	208.9	199.8	153.4
Cost of sales, excluding depreciation and amortization:			
Cost of service	(34.3)	(30.1)	(25.4)
Cost of product sales	(16.4)	(14.4)	(12.9)
Selling, general and administrative expenses	(110.2)	(89.6)	(79.4)
Acquisition and integration related transaction expenses	(1.6)	(7.0)	(6.7)
Depreciation and amortization	(47.0)	(52.3)	(42.0)
Net operating (loss) income	(0.6)	6.4	(13.0)
Other expense			
Interest expense, net	(44.3)	(30.0)	(27.7)
Change in fair value of earnout liability	—	—	(2.3)
Change in fair value of derivative liability	—	—	3.0
Change in fair value of warrant liability	0.9	(3.2)	(4.1)
Loss from equity method investee	—	(0.5)	(0.1)
Other finance income (expense)	5.7	(4.7)	3.2
Total other expense, net	(37.7)	(38.4)	(28.0)
Loss before income taxes	(38.3)	(32.0)	(41.0)
Income tax benefit (expense)	1.6	(0.4)	(0.1)
Net loss	(36.7)	(32.4)	(41.1)
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	0.4	(5.4)	(2.4)
Change in fair value of hedging instrument	0.3	(2.9)	2.9
Reclassification of loss (gain) on hedging instrument to comprehensive income	1.5	1.5	(4.4)
Actuarial gains (losses) on pension plan	10.5	(7.2)	(6.9)
Other comprehensive income (loss)	12.7	(14.0)	(10.8)
Comprehensive loss	\$ (24.0)	\$ (46.4)	\$ (51.9)
Net loss per common share – basic and diluted	\$ (1.60)	\$ (1.45)	\$ (1.88)
Weighted average number of shares outstanding during the year – basic and diluted	22,897,997	22,399,333	21,892,964
Supplemental disclosure of stock-based compensation expense			
Stock-based compensation included in:			
Selling, general and administrative expenses	\$ (13.0)	\$ (4.8)	\$ (9.0)

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(in millions, except share data)

	Common stock		Additional paid in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance as of January 1, 2019	20,870,397	\$ —	\$ 303.9	\$ 55.9	\$ (383.9)	\$ (24.1)
Foreign currency translation adjustments	—	—	—	(2.4)	—	(2.4)
Actuarial losses on pension plan	—	—	—	(6.9)	—	(6.9)
Change in fair value of hedging instrument	—	—	—	2.9	—	2.9
Reclassification of gain on hedging instrument to comprehensive income	—	—	—	(4.4)	—	(4.4)
Conversion of awards previously classified as derivatives	—	—	0.8	—	—	0.8
Shares issued in earnout	1,323,558	—	8.6	—	—	8.6
Shares issued upon net settlement of RSUs	36,813	—	(0.9)	—	—	(0.9)
Stock-based compensation expense	—	—	8.2	—	—	8.2
Net loss	—	—	—	—	(41.1)	(41.1)
Balance as of December 31, 2019	22,230,768	—	320.6	45.1	(425.0)	(59.3)
Foreign currency translation adjustments	—	—	—	(5.4)	—	(5.4)
Actuarial losses on pension plan	—	—	—	(7.2)	—	(7.2)
Change in fair value of hedging instrument	—	—	—	(2.9)	—	(2.9)
Reclassification of loss on hedging instrument to comprehensive income	—	—	—	1.5	—	1.5
Shares issued upon net settlement of RSUs	192,058	—	(0.7)	—	—	(0.7)
Shares issued under ESPP	7,649	—	—	—	—	—
Stock-based compensation expense	—	—	4.7	—	—	4.7
Net loss	—	—	—	—	(32.4)	(32.4)
Balance as of December 31, 2020	22,430,475	—	324.6	31.1	(457.4)	(101.7)
Foreign currency translation adjustments	—	—	—	0.4	—	0.4
Actuarial gains on pension plan	—	—	—	10.5	—	10.5
Change in fair value of hedging instrument	—	—	—	0.3	—	0.3
Reclassification of loss on hedging instrument to comprehensive income	—	—	—	1.5	—	1.5
Shares issued upon net settlement of RSUs	324,122	—	(6.4)	—	—	(6.4)
Shares issued upon exercise of warrants	3,678,965	—	42.4	—	—	42.4
Stock-based compensation expense	—	—	11.7	—	—	11.7
Net loss	—	—	—	—	(36.7)	(36.7)
Balance as of December 31, 2021	26,433,562	\$ —	\$ 372.3	\$ 43.8	\$ (494.1)	\$ (78.0)

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash flows from operating activities:			
Net loss	\$ (36.7)	\$ (32.4)	\$ (41.1)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	47.0	52.3	42.0
Amortization of right of use asset	3.3	3.6	1.0
Stock-based compensation expense	13.0	4.8	9.0
Change in fair value of derivative liability	—	—	(3.0)
Change in fair value of earnout liability	—	—	2.3
Impairment of investment in equity method investee	—	0.7	—
Unrealized transactional currency gain/loss on senior bank debt	(4.6)	5.6	0.8
Unrealized transactional currency gain/loss on cross currency swaps	—	—	(3.6)
Change in fair value of warrant liability	(0.9)	3.2	4.1
Reclassification of loss on hedging instrument to comprehensive income	1.5	0.9	—
Non-cash interest expense relating to senior debt	17.2	3.4	9.0
Changes in assets and liabilities:			
Accounts receivable	(4.9)	(2.9)	3.3
Inventory	1.6	1.3	2.0
Prepaid expenses and other assets	(13.9)	8.8	3.3
Corporate tax and other current taxes payable	(9.9)	6.6	(3.6)
Accounts payable	2.8	(4.8)	6.9
Deferred revenues and customer prepayment	(6.7)	(5.7)	(9.5)
Accrued expenses	0.7	10.9	7.2
Operating lease liabilities	(2.9)	(2.8)	(1.3)
Other long-term liabilities	(0.4)	(0.6)	1.9
Net cash provided by operating activities	6.2	52.9	30.7
Cash flows from investing activities:			
Purchases of property and equipment	(11.6)	(15.4)	(10.5)
Acquisition of subsidiary company assets	(12.5)	—	—
Cash paid for NTG Acquisition	—	—	(105.9)
Software development expenditure	(13.8)	(14.5)	(17.0)
Net cash used in investing activities	(37.9)	(29.9)	(133.4)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	333.1	—	270.6
Proceeds from issuance of revolver	—	—	2.8
Proceeds from exercise of warrants	30.5	—	—
Repayments of revolver and long-term debt, including exit premium	(320.6)	(4.2)	(144.2)
Payment of financing costs	—	—	(15.2)
Payment of debt issuance costs	(9.1)	(3.1)	—
Payment in connection with terminated interest rate swaps	(2.1)	—	—
Principal payments under finance leases	(0.6)	(0.9)	(0.5)
Net cash provided by (used in) financing activities	31.2	(8.2)	113.5
Effect of exchange rate changes on cash	1.2	3.2	2.3
Net increase in cash	0.7	18.0	13.1
Cash, beginning of period	47.1	29.1	16.0
Cash, end of period	\$ 47.8	\$ 47.1	\$ 29.1
Supplemental cash flow disclosures			
Cash paid during the period for interest	\$ 30.8	\$ 13.3	\$ 12.6
Cash paid during the period for income taxes	\$ 1.2	\$ 0.2	\$ —
Cash paid during the period for operating leases	\$ 4.4	\$ 3.3	\$ 2.2
Supplemental disclosure of noncash investing and financing activities			
Additional paid in capital from net settlement of RSUs	\$ (6.4)	\$ (0.7)	\$ (0.9)
Lease liabilities arising from obtaining right of use assets	\$ —	\$ (6.8)	\$ (9.6)
Adjustment to goodwill arising from adjustment to fair value of assets acquired	\$ —	\$ (0.2)	\$ —
Property and equipment acquired through finance lease	\$ 2.6	\$ 1.5	\$ —
Property and equipment transferred to inventory	1.3	—	—
Capitalized interest payments	\$ —	\$ 10.6	\$ —
Assets arising from asset retirement obligations	\$ —	\$ 1.0	\$ —
Additional paid in capital reclassified from derivative liability	\$ —	\$ —	\$ 0.8

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

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020, AND FOR THE YEARS ENDED
DECEMBER 31, 2021, 2020 AND 2019

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

Company Description and Nature of Operations

We are a global gaming technology company, supplying content, platform and other products and services to online and land-based regulated lottery, betting and gaming operators worldwide through a broad range of distribution channels, predominantly on a business-to-business basis. We provide end-to-end digital gaming solutions (i) on our own proprietary and secure network, which accommodates a wide range of devices, including land-based gaming machine terminals, mobile devices and online computer applications and (ii) through third party networks. Our content and other products can be found through the consumer-facing portals of our interactive customers and, through our land-based customers, in licensed betting offices, adult gaming centers, pubs, bingo halls, airports, motorway service areas and leisure parks.

The Company was incorporated in Delaware on May 30, 2014 under the name Hydra Industries Acquisition Corp. (“Hydra”). We subsequently changed our name from Hydra to Inspired Entertainment, Inc.

On October 1, 2019, the Company completed the acquisition of the Gaming Technology Group of Novomatic UK Ltd., a division of Novomatic Group, an international supplier of gaming equipment and solutions (the “NTG Acquisition”).

Management Liquidity Plans

As of December 31, 2021, the Company’s cash on hand was \$47.8 million, and the Company had working capital of \$44.9 million. The Company recorded net losses of \$36.7 million, \$32.4 million and \$41.1 million for the year ended December 31, 2021, 2020 and 2019, respectively. Net losses include excess depreciation and amortization over capital expenditure of \$21.4 million, \$22.4 million and \$14.5 million for the year ended December 31, 2021, 2020 and 2019, respectively, non-cash stock-based compensation of \$13.0 million, \$4.8 million and \$9.0 million for the year ended December 31, 2021, 2020 and 2019, respectively, and non-cash changes in fair value of warrant liability of \$0.9 million gain and \$3.2 million and \$4.1 million losses for the year ended December 31, 2021, 2020, and 2019, respectively. 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. Cash flows provided by operations amounted to \$6.2 million, \$52.9 million and \$30.7 million for the year ended December 31, 2021, 2020 and 2019, respectively. Working capital of \$44.9 million includes a non-cash settled item of \$7.7 million of deferred income. Management currently believes that, absent any long-term coronavirus (“COVID-19”) impact (see below), 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 March 2023.

On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic which affected our retail businesses throughout 2020. From mid-December 2020 to mid-April 2021, all retail venues were once again closed due to government-mandated shutdowns. Full restrictions did not fall away in the United Kingdom until July 2021 and there remains an element of social distancing in venues in Greece and in Italy.

It remains uncertain as to whether and when further restrictions or closures could happen in each jurisdiction and how long they may last. We continue to protect our existing available liquidity by pro-actively managing capital expenditures and working capital as well as identifying both immediate and longer-term opportunities for cost savings.

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”).

INSPIRED ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021 AND 2020, AND FOR THE YEARS ENDED
DECEMBER 31, 2021, 2020 AND 2019

Principles of Consolidation

All monetary values set forth in these consolidated financial statements are in US 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 USD. We also have operations where the local currency is the functional currency, including our operations in mainland Europe and North America. Assets and liabilities of foreign operations are translated at period-end rates of exchange, equity is translated at historical rates of exchange and results of operations are translated at the average rates of exchange for the period. Gains or losses resulting from translating the foreign currency financial statements are recorded as a separate component of accumulated other comprehensive loss in stockholders’ deficit. Gains or losses resulting from foreign currency transactions are included in Selling, general and administrative expenses, Interest expense, net and Other finance (expense) income in the Consolidated Statement of Operations and Comprehensive Loss.

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, warrant 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. 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. Our standard credit terms are net 30 to 60 days. 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 \$17.4 million and \$8.2 million of unbilled accounts receivable as of December 31, 2021 and December 31, 2020, respectively.

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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 first-in-first-out 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	2 – 7 years
Motor vehicles	3 – 5 years
Plant and machinery and fixtures and fittings	3 – 10 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.

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”) 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 \$3.1 million, \$3.9 million and \$3.8 million were expensed during the year ended December 31, 2021, 2020 and 2019, respectively. Employee related costs associated with related product development are included in Selling, general and administrative expenses in the Consolidated Statement of Operations and Comprehensive Loss.

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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, and increased in 2019 due to the NTG acquisition (see Note 2). Trademarks and customer relationships were originally recorded at their fair values in connection with business combinations, and increased in 2021 due to the Sportech Acquisition (see Note 2).

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 thirteen 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 four segments, Gaming, Virtual Sports, Interactive and Leisure, as detailed in Note 26. 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 mixture of qualitative and quantitative tests were carried out as of December 31, 2021 and 2020 and no impairment was required at any of these dates.

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.

Equity Method Investment

For investments in entities over which the Company exercises significant influence, but which do not meet the requirements for consolidation, the Company uses the equity method of accounting. On October 1, 2019, the Company acquired a 40% noncontrolling interest in Innov8 Gaming Limited in connection with the Acquisition (see Note 2), and in April 2020 this interest was disposed of. The value of the Company's equity method investment was \$0.7 million as of December 31, 2019, and was impaired to \$Nil in March 2020 prior to disposal. The Company's share of earnings from its equity method investee, including the impairment, is presented in Loss from equity method investee in the Consolidated Statement of Operations and Comprehensive Loss.

The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investment may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment charge when the loss in value is deemed other-than-temporary.

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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.

Debt Issuance 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. Only costs that are wholly attributable to obtaining the related debt finance are treated as debt issuance costs. Any other costs are expenses to the Consolidated Statement of Operations and Comprehensive Loss as part of Acquisition and integration related transaction expenses.

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 Statement of Operations and Comprehensive Loss.

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.

During the quarter ending December 31, 2021, (i) an aggregate of 2,651,129 shares of common stock were issued pursuant to the exercise of 5,302,258 Public Warrants and (ii) an aggregate of 1,027,836 shares of common stock were issued pursuant to the exercise (on a cashless basis) of 9,049,230 Private Warrants. There were no warrants outstanding as of December 31, 2021.

At December 31, 2020, the Company considered that the warrants did not meet the criteria for equity classification and must be recorded as liabilities. As the warrants met the definition of a derivative as contemplated in ASC 815, the warrants were measured at fair value at inception and at each reporting date in accordance with ASC 820, Fair Value Measurement, with changes in fair value recognized in the Consolidated Statements of Operations and Comprehensive Loss in the period of change.

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.

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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.

Revenue Recognition

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

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

1. identify the contracts with a customer;
2. identify the performance obligations within the contract, including whether they are distinct and capable of being distinct in the context of the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when, or as, the Company satisfies each performance obligation.

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Step 1 – Identify the contract

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

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

- a. Contracts were negotiated as a single commercial package (including whether a contract would be loss-making without taking into account the consideration received under another contract)
- b. Consideration in one contract depends on the other contract
- c. Goods or services (or some of the goods or services) are a single performance obligation.

Step 2 – Identify performance obligations

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

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

- a. Each distinct good or service in the series meets the criteria to be a performance obligation satisfied over time.
- b. The same method would be used to measure progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

Step 3 – Determine the transaction price

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

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

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

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

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Step 4 – Allocate the transaction price

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

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

Step 5 – Recognize revenue

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

- a. The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.
- b. The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c. The Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date

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

Gaming Revenue

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

Terminal sales take the form of a transfer of ownership of our developed gaming terminals, and are recognized as Product Sales at a point in time upon delivery as they are considered to meet the required criteria to be considered distinct. Payment for terminal sales is typically due a set number of days after delivery.

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

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Virtual Sports Revenue

Revenue from licensing of our gaming software is recognized in accordance with the criteria set forth in ASC 606. Virtual sports retail revenue, which includes the provision of virtual sports content and services to retail betting outlets, and virtual sports online revenue, which includes the provision of virtual sports content and services to mobile operators, is usually based upon a contracted percentage of the operator's net winnings or, occasionally, a fixed rental fee. We recognize revenue for these fees over time on a daily or weekly basis over the term of the arrangement, or, where appropriate when the contracted percentages vary prospectively with total operator's net winnings generated, we estimate the amount of variable consideration to which we will be entitled, up to and including the date at which the contracted percentages reset, and recognize this estimated consideration over time. Consideration with respect to these performance obligations typically takes the form of usage based fees, billed at the end of a set period (usually monthly) and due typically 30 days from the date of the invoice.

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

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

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

Interactive Revenue

Interactive revenue, which includes slot and table game offerings from our Gaming segment, as well as interactive-only content, via our remote gaming servers, is based upon a contracted percentage of the operator's net winnings or a fixed rental fee. We recognize revenue for these fees over time on a daily or weekly basis over the term of the arrangement, or, where appropriate when the contracted percentages vary prospectively with total operator's net winnings generated, we estimate the amount of variable consideration to which we will be entitled, up to and including the date at which the contracted percentages reset, and recognize this estimated consideration over time. Consideration with respect to these performance obligations typically takes the form of usage based fees, billed at the end of a set period (usually monthly) and due typically 30 days from the date of the invoice.

Leisure Revenue

The Leisure segment earns revenue from providing gaming machine terminals and amusement machine terminals to pubs, holiday resorts and amusement arcades, both standalone and within motorway service stations. Revenue from these activities is based upon a contracted percentage of the operator's net winnings from the terminals' daily use, or a fixed daily or weekly rental fee.

We jointly operate arcades within holiday resorts with the resort owners. Revenue is based on a contractually agreed share of takings. We also wholly operate a number of gaming arcades within certain motorway service stations.

We recognize revenue from these arrangements, in accordance with the series guidance as set forth in ASC 606, over time over the term of the arrangement, or when not specified over the expected customer relationship period. All revenue is recognized in the period that the machine cash collections occur, with adjustments to account for the movement of income uncollected in the specific period.

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Performance obligations under these arrangements may include the delivery and installation of our terminals for use over a term, as well as service obligations related to terminal repairs and content and maintenance. Consideration with respect to these performance obligations typically takes the form of usage based fees, billed at the end of a set period (usually monthly) and due typically 30 days from the date of the invoice.

We also provide terminal and spares management services to third parties. Revenue in respect to these services takes the form of fixed fee, either per machine or per time period, and is recognized at the point in time when control transfers to the customer, which is normally upon delivery and acceptance by the customer, or at the point that services are rendered. This revenue is recognized as Service Revenue when included as part of a larger performance obligation, and as Product Sales when it is offered as a separate distinct performance obligation. Revenue is invoiced in arrears and settled within 30 days

Disaggregation of revenue

Information on disaggregation of revenue is included in Note 26, “Segment Reporting and Geographic Information.”

Shipping and Handling Costs

Shipping and handling costs for products sales and terminals 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. The incremental cost is charged over the estimated derived service period.

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.

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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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), followed in July 2018 by ASU 2018-10, Codification Improvements to Topic 842 Leases, and ASU 2018-11, Leases (Topic 842): Targeted Improvements. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result of this adoption and the required disclosures, the Company revised its accounting policy for leases as stated below in the year ended December 31, 2019. The guidance was effective for all public business entities and certain not-for-profit entities in fiscal years beginning after December 15, 2018, and for all other entities in fiscal years beginning after December 15, 2020. As the Company was an emerging growth company until December 31, 2019 and elected 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, it adopted the standard as of January 1, 2019 on December 31, 2019.

We elected to adopt the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, along with the practical expedient to use hindsight when determining the lease term.

We determine if an arrangement is a lease at inception of the arrangement. Once it is determined that an arrangement is, or contains, a lease, that determination should only be reassessed if the legal arrangement is modified. Changes to assumptions such as market-based factors do not trigger a reassessment. Determining whether a contract contains a lease requires judgement. In general, arrangements are considered to be a lease when all of the following apply:

- it conveys the right to control the use of an identified asset for a period of time in exchange for consideration;
- we have substantially all economic benefits from the use of the asset; and
- we can direct the use of the identified asset.

The terms of a lease arrangement determine how a lease is classified and the resulting income statement recognition. When the terms of a lease effectively transfer control of the underlying asset, the lease represents an in substance financed purchase (sale) of an asset and the lease is classified as a finance lease by the lessee and a sales-type lease by the lessor. When a lease does not effectively transfer control of the underlying asset to the lessee, but the lessor obtains a guarantee for the value of the asset from a third party, the lessor would classify a lease as a direct financing lease. All other leases are classified as operating leases.

Where a lease contains more than one component, the consideration in the contract is allocated on a relative standalone price basis to the separate lease components and the non-lease components.

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Leases – the Company as lessee

Lease assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As our operating leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at January 1, 2019 or commencement date, if later, in determining the present value of future payments. Finance leases are included using the rate implicit in the lease. The lease ROU asset includes any lease payment made and initial direct costs incurred. Our operating lease terms may include options to extend or terminate the lease which are included in the measurement of the ROU assets and lease liabilities when it is reasonably certain that we will exercise that option.

The lease expense for minimum operating lease payments is recognized on a straight-line basis over the lease term. Finance lease assets are amortized straight-line over their useful life where the lease transfers ownership of the underlying asset, or to the earlier of the end of the useful life of the asset and the end of the lease term where ownership is not transferred. Interest on finance leases is recognized as the amount that results in a constant periodic discount rate on the remaining balance of the liability.

We have operating lease agreements with lease and non-lease components. The Company did not make the election to treat the lease and non-lease components as a single component and considers the non-lease components as a separate unit of account.

The Company has elected not to apply the recognition requirements of ASC 842 to short-term operating leases. We recognize the lease payments for short-term leases on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred

Leases – the Company as lessor

The Company's lease arrangements are a mixture of sales-type leases and operating leases.

Sales-type lease receivables are recognized based on the net investment in the lease, at the present value of future minimum lease payments receivable over the lease term, plus any guaranteed residual value of the underlying asset, at the commencement date.

The discount rate used in determining the present value of the future minimum lease payments is the rate implicit in the lease. This is calculated using the fair value of the underlying asset and the present value of any unguaranteed residual value.

The underlying asset is derecognized at the point of inception and a selling profit is recognized at lease commencement. Subsequent interest income is recognized over the term of the lease, at an amount that produces a constant periodic discount rate on the remaining balance of the net investment in the lease.

For operating leases, we continue to recognize the underlying asset. Lease income is recognized on a straight-line basis over the lease term.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). In November 2018, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" ("ASU 2018-19") and in November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses" ("ASU 2019-11"). ASU 2016-13 affects loans, debt securities, trade receivables, and any other financial assets that have the contractual right to receive cash. ASU 2016-13 requires an entity to recognize expected credit losses rather than incurred losses for financial assets. The guidance will be effective beginning on January 1, 2023, including interim periods within that year and requires a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Under the modified retrospective method of adoption, prior year reported results are not restated. We are still evaluating the effect of this guidance, however, the adoption of ASU 2016-13 is not expected to have a material impact on the Company's financial statement presentation or disclosures.

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In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”), and in January 2021 extended the scope of Topic 848 to other derivative instruments. ASU 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments are elective and are effective upon issuance for all entities. The Company has made certain elections in accordance with ASU 2020-04 and as a result there is no material impact on the Company’s financial statement presentations or disclosures.

In July 2021, the FASB issued ASU No. 2021-05, “Leases (Topic 842): Lessors – Certain Leases with Variable Lease Payments” (“ASU 2021-05”). ASU 2021-05 amends lease classification requirements for lessors to require a lessor to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: 1) the lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3; and 2) the lessor would have otherwise recognized a day-one loss. The guidance will be effective beginning on January 1, 2022, including interim periods within that year, and can be applied either retrospectively or prospectively to leases that commence or are modified on or after the date that the amendments are first applied. The adoption of ASU 2021-05 is not expected to have a material impact on the Company’s financial statement presentation or disclosures.

In October 2021, the FASB issued ASU No. 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers” (“ASU 2021-08”). ASU 2021-08 requires that an acquiring entity recognizes and measures contract assets and liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts as if it had originated the contracts. The guidance will be effective beginning on January 1, 2023, including interim periods within that year, and should be applied prospectively to business combinations occurring on or after the effective date.

In November 2021, the FASB issued ASU No. 2021-10, “Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance” (“ASU 2021-10”). ASU 2021-10 requires entities to disclose information about certain government assistance that they receive, including 1) the nature of the transactions and the related accounting policies used; 2) the line items on the balance sheet and income statement that are affected and the amounts applicable to each financial statement line item; and 3) significant terms and conditions of the transactions. The guidance is applicable to annual periods only, and will be effective beginning on January 1, 2022. It can be applied either retrospectively or prospectively to all transactions in the scope of the amendments that are reflected in the financial statements at the date of initial application and new transactions that are entered into after the date of initial application. The adoption of ASU 2021-10 is not expected to have a material impact on the Company’s financial statement presentation or disclosures if applied prospectively.

2. Acquisitions

On December 31, 2021, the Company acquired 100% of the membership interests of Sportech Lotteries, LLC (the “Sportech Acquisition”). The Company concluded that Sportech Lotteries, LLC’s contract with its only customer represented substantially all of the fair value of the gross assets acquired and, in accordance with ASC 805, determined that the asset set did not comprise a business. The Company has therefore applied asset acquisition accounting to the transaction, and has recorded the acquisition of the customer contract as an intangible asset in the amount of \$12.3 million. The intangible asset will be amortized over its remaining useful life of 13.2 years.

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On October 1, 2019, the Company’s subsidiary, Inspired Gaming (UK) Limited, completed the acquisition of the Gaming Technology Group of Novomatic UK Ltd. pursuant to the Share Purchase Agreement, dated as of June 11, 2019 (the “SPA”), comprising: (i) all of the outstanding equity interests of each of (a) Astra Games Ltd, (b) Bell-Fruit Group Limited, (c) Gamestec Leisure Limited, (d) Harlequin Gaming Limited, and (e) Playnation Limited, and (ii) 60% of the outstanding equity interests of Innov8 Gaming Limited (“Innov8”, and together with the entities described in clause (i) and certain of their subsidiaries, the “Acquired Businesses” and the transactions contemplated by the SPA, the “NTG Acquisition”). The consideration for the NTG Acquisition totaled approximately €107.0 million (\$131.4 million) in cash, which was financed by the Senior Facilities Agreement discussed in Note 13.

Simultaneous with the closing of the NTG Acquisition, Inspired transferred a portion of the equity interests it had acquired in Innov8 to the then-minority equity holders of Innov8 in exchange for the renegotiation of certain funding commitments. As a result, Inspired then held approximately 40% of the outstanding equity interests of Innov8. In April 2020, this interest was disposed of.

The Company incurred advisor fees, legal and other costs related to the NTG Acquisition of \$6.7 million, which excluded the costs of refinance that were deducted from the senior debt as debt issuance costs and which were recognized in operating expenses in the accompanying consolidated statement of operations during the year ended December 31, 2019. Further such costs recognized in the accompanying consolidated statement of operations during the year ended December 31, 2020 amounted to \$1.3 million.

Total revenues and loss from operations from October 1, 2019 (the acquisition date) through December 31, 2019 amounted to \$31.0 million and \$(0.4) million, respectively, and is included in the consolidated statements of operations and comprehensive income.

Pro Forma Information (Unaudited)

The following unaudited consolidated pro forma information gives effect to the transaction contemplated by the NTG Acquisition as if such transaction had occurred on January 1, 2019. The following pro forma information is presented for illustration purposes only and is not necessarily indicative of the results that would have been attained had the acquisition been completed on January 1, 2019, nor is it indicative of results that may occur in any future periods.

	Year Ended December 31, 2019
Revenues	\$ 256.9
Net operating loss	\$ (5.8)
Net loss	\$ (33.7)
Loss per share:	
Basic and diluted	\$ (1.54)
Weighted average shares outstanding:	
Basic and diluted	21,892,964

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3. Accounts Receivable

Accounts receivable consist of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Trade receivables	\$ 36.2	\$ 30.4
Less: long-term receivable recorded in other assets	(3.5)	(1.4)
Finance lease receivables	0.7	0.7
Other receivables	—	0.1
Allowance for doubtful accounts	(1.7)	(2.3)
Total accounts receivable, net	<u>\$ 31.7</u>	<u>\$ 27.5</u>

Changes in the allowance for doubtful accounts are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Beginning balance	\$ (2.3)	\$ (0.9)
Additional provision for doubtful accounts	(0.6)	(1.4)
Recoveries	0.1	—
Write offs	1.1	0.1
Foreign currency translation adjustments	—	(0.1)
Ending balance	<u>\$ (1.7)</u>	<u>\$ (2.3)</u>

4. Inventory

Inventory consists of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Component parts	\$ 10.8	\$ 12.1
Work in progress	1.6	1.7
Finished goods	4.5	3.8
Total inventories	<u>\$ 16.9</u>	<u>\$ 17.6</u>

Component parts include parts for gaming terminals. Included in inventory are reserves for excess and slow-moving inventory of \$2.0 million and \$1.5 million as of December 31, 2021 and 2020, respectively. Our finished goods inventory primarily consists of gaming terminals which are ready for sale.

5. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Prepaid expenses and other assets	\$ 12.3	\$ 8.6
Unbilled accounts receivable	17.4	8.2
Total prepaid expenses and other assets	<u>\$ 29.7</u>	<u>\$ 16.8</u>

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6. Property and Equipment, net

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Short-term leasehold property	\$ 3.2	\$ 3.6
Server based gaming terminals	178.8	175.9
Computer equipment	10.6	12.6
Plant and machinery	4.1	2.7
	<u>196.7</u>	<u>194.8</u>
Less: accumulated depreciation and amortization	(145.8)	(129.3)
	<u>\$ 50.9</u>	<u>\$ 65.5</u>

Depreciation expense amounted to \$25.9 million, \$29.9 million and \$21.7 million for the years ended December 31, 2021, 2020 and 2019, respectively.

7. Software Development Costs, net

Software development costs, net consisted of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Software development costs	\$ 160.9	\$ 149.6
Less: accumulated amortization	(125.3)	(107.2)
	<u>\$ 35.6</u>	<u>\$ 42.4</u>

During the years ended December 31, 2021 and 2020, the Company capitalized \$13.6 million and \$14.6 million of software development costs, respectively. Amounts in the above table include \$2.2 million and \$0.8 million of internal use software as of December 31, 2021 and 2020, respectively.

The total amount of software costs amortized was \$20.0 million, \$20.0 million and \$16.4 million for the years ended December 31, 2021, 2020, and 2019, respectively. Software costs written down to net realizable value amounted to \$0.2 million, \$0.0 million and \$0.4 million for the years ended December 31, 2021, 2020 and 2019, respectively. The weighted average amortization period was 3.3 years, 3.2 years and 3.0 years for the years ended December 31, 2021, 2020 and 2019, respectively.

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

Year ending December 31, (in millions)	
2022	\$ 15.7
2023	11.2
2024	4.9
2025	3.0
2026	0.8
Thereafter	—
Total	<u>\$ 35.6</u>

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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.

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Trademarks	\$ 22.1	\$ 22.4
Customer relationships	32.7	20.7
	54.8	43.1
Less: accumulated amortization	(35.9)	(35.4)
	<u>\$ 18.9</u>	<u>\$ 7.7</u>

Aggregate intangible asset amortization expense amounted to \$0.9 million, \$2.4 million and \$3.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

Year ending December 31, (in millions)	
2022	\$ 1.8
2023	1.8
2024	1.8
2025	1.8
2026	1.8
Thereafter	9.9
Total	<u>\$ 18.9</u>

Goodwill

Goodwill is summarized as follows:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Balance at beginning of period	\$ 83.7	\$ 80.9
Foreign currency translation adjustments	(1.0)	2.6
Acquisition of NTG	—	0.2
Ending balance	<u>\$ 82.7</u>	<u>\$ 83.7</u>

Amounts relating to the Acquisition of NTG for the year ended December 31, 2020 relate to asset valuations that were revised during the year.

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9. Other Assets

Other assets consist of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Long term finance lease receivable	\$ 0.3	\$ 0.6
Pension asset	3.0	—
Long term receivables	3.5	1.4
Long term prepaid expenses and other assets	0.3	1.3
	<u>\$ 7.1</u>	<u>\$ 3.3</u>

10. Accrued Expenses

Accrued expenses consist of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Direct costs of sales	\$ 4.4	\$ 4.0
Payroll and related costs	7.2	7.7
Accrued corporate cost expenses	—	1.8
Interest payable - cash	2.0	6.8
Asset retirement obligations	1.1	1.6
Acquisition consideration	0.6	0.8
Contract termination costs	—	0.2
Other creditors	17.3	8.5
	<u>\$ 32.6</u>	<u>\$ 31.4</u>

11. Contract Liabilities and Other Disclosures

The following table summarizes contract related balances:

	<u>Accounts</u> <u>Receivable</u>	<u>Unbilled</u> <u>Accounts</u> <u>Receivable</u>	<u>Deferred</u> <u>Income</u>	<u>Customer</u> <u>Prepayments</u> <u>and Deposits</u>
	(in millions)			
At December 31, 2021	\$ 36.2	\$ 17.4	\$ (14.5)	\$ (3.9)
At December 31, 2020	\$ 30.4	\$ 8.2	\$ (22.9)	\$ (1.6)
At December 31, 2019	\$ 24.5	\$ 15.3	\$ (27.8)	\$ (1.9)

Revenue recognized that was included in the deferred income balance at the beginning of the period amounted to \$10.9 million, \$10.3 million and \$9.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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12. Other Liabilities

Other liabilities consist of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Customer prepayments and deposits	\$ 3.9	\$ 1.6
Fair value of hedging instrument	—	0.9
Total other liabilities, current	<u>3.9</u>	<u>2.5</u>
Asset retirement obligations	1.8	1.8
Other creditors	1.3	—
Pension liability	—	9.1
Total other liabilities, long-term	<u>3.1</u>	<u>10.9</u>
	<u>\$ 7.0</u>	<u>\$ 13.4</u>

13. Long Term and Other Debt

Senior Secured Notes

On May 20, 2021, Inspired Entertainment (Financing) PLC, a wholly owned subsidiary of the Company, issued £235.0 million (\$316.7 million, as translated at December 31, 2021) aggregate principal amount of its 7.875% senior secured notes due 2026 (the “Senior Secured Notes”). The Senior Secured Notes bear interest at a rate of 7.875% per annum and mature on June 1, 2026. Interest is payable on the Senior Secured Notes on June 1 and December 1 of each year, commencing on December 1, 2021

The Senior Secured Notes and related guarantees were issued under an indenture (the “Indenture”), among Inspired Entertainment (Financing) PLC, as issuer, the Company and certain English and U.S. subsidiaries of the Company, as guarantors (collectively and together with the Company, the “Guarantors”), GLAS Trustees Limited, as trustee, GLAS Trust Corporation Limited, as security agent and GLAS Trust Company LLC as paying agent, transfer agent and registrar. The terms of the Senior Secured Notes and related guarantees are governed by the Indenture.

The Senior Secured Notes are fully and unconditionally guaranteed on a senior secured first-priority basis by the Guarantors on a joint and several basis. The Senior Secured Notes and related guarantees are secured, subject to certain permitted collateral liens, on a first-priority basis by substantially all assets of the Guarantors and all claims of the Inspired Entertainment (Financing) PLC under an intercompany loan to Gaming Acquisitions Limited, a private limited liability company incorporated under the laws of England and Wales and an indirect wholly-owned subsidiary of the Company (“GAL”), of the proceeds of the offering of the Senior Secured Notes.

The Indenture contains incurrence covenants that limit the ability of the Company and the Company’s restricted subsidiaries to, among other things, (i) incur or guarantee additional debt and issue certain preferred stock of restricted subsidiaries; (ii) create or incur certain liens; (iii) make restricted payments, including dividends or distributions to the Company’s stockholders or repurchase the Company’s stock; (iv) prepay or redeem subordinated debt; (v) make certain investments, including participating joint ventures; (vi) create encumbrances or restrictions on the payment of dividends or other distributions by restricted subsidiaries; (vii) sell assets, or consolidate or merge with or into other companies; (viii) sell or transfer all or substantially all of the Company’s assets or those of the Company’s subsidiaries on a consolidated basis; (ix) engage in certain transactions with affiliates; and (x) create unrestricted subsidiaries. Certain of these covenants will be suspended if and for so long as the Senior Secured Notes have investment grade ratings from any two of Moody’s Investors Service, Inc., Standard & Poor’s Investors Ratings Services and Fitch Ratings, Inc. These covenants are subject to exceptions and qualifications as set forth in the Indenture.

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Inspired Entertainment (Financing) PLC may redeem the Senior Secured Notes, in whole or in part, at any time and from time to time prior to June 1, 2023, at a redemption price equal to 100% of the principal amount thereof, plus a “make-whole” premium as set forth in the Indenture and form of the Senior Secured Notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Inspired Entertainment (Financing) PLC may also redeem the Senior Secured Notes, in whole or in part, at any time and from time to time on or after June 1, 2023, at the redemption prices set forth in the Indenture and form of the Senior Secured Notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to June 1, 2023, Inspired Entertainment (Financing) PLC may redeem up to 40% of the original aggregate principal amount of the Senior Secured Notes with the net cash proceeds of one or more equity offerings, as described in the Indenture, at a redemption price equal to 107.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At any time prior to June 1, 2023, Inspired Entertainment (Financing) PLC may redeem up to 10% of the aggregate principal amount of the Senior Secured Notes within each 12-month period at a redemption price equal to 103% of the aggregate principal amount of the Senior Secured Notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

Revolving Credit Facility

In connection with the issuance of the Senior Secured Notes on May 20, 2021, the Company and certain of our direct and indirect wholly-owned subsidiaries, entered into a Super Senior Revolving Credit Facility Agreement (the “RCF Agreement”) with Global Loan Agency Services Limited, as agent, Barclays Bank plc (“Barclays”) and Macquarie Corporate Holdings Pty Limited (UK Branch) (“Macquarie UK” and together with Barclays, the “Arrangers”) as arrangers and each lender party thereto (the “Lenders”), pursuant to which the Lenders agreed to provide, subject to certain conditions, a secured revolving facility loan in an original principal amount of £20 million (\$27.0 million) under which certain of our subsidiaries are able to draw funds (the “RCF Loan”). The RCF Loans will terminate on November 20, 2025.

The funding of the RCF Loan is subject to customary conditions set forth in the RCF Agreement. The undrawn commitment of each Lender under the RCF Loan will automatically terminate, unless previously terminated by the Company, on October 20, 2025.

The RCF Loans will bear interest at a rate per annum equal to (i) SONIA for borrowings in sterling, (ii) LIBOR (or, on and after December 31, 2021, SOFR) for borrowings in dollars, or (iii) EURIBOR for borrowings in Euro, as applicable, plus, in each case, a margin (based on the Company’s consolidated senior secured net leverage ratio) ranging from 4.25% to 4.75% per annum. With respect to the RCF Loan, a commitment fee of 30% of the then applicable margin is payable at any time on any unutilized portion of the RCF Loan.

The RCF Agreement contains various covenants (which include restrictions regarding the incurrence of liens, the incurrence of indebtedness by the Company’s subsidiaries and fundamental changes, subject in each case to certain exceptions), representations, warranties, limitations and events of default (which include non-payment, breach of obligations under the financing documents, cross-default, insolvency and litigation) customary for similar facilities for similarly rated borrowers and subject to customary carve-outs and grace periods. Following the occurrence of an event of default which has not been waived or remedied, the Lenders who represent more than 66.67% of total commitments under the RCF may, subject to the terms of an intercreditor agreement (which governs the relationship between the Lenders and the holders of the Senior Secured Notes), instruct the agent to (i) accelerate the RCF Loans, (ii) instruct the security agent to enforce the transaction security and/or (iii) exercise any other remedies available to the Lenders.

The RCF Agreement requires that the Company maintain a maximum consolidated senior secured net leverage ratio of 6.25x on the test date for the relevant period ending June 30, 2021, stepping down to 6.0x on March 31, 2022, 5.75x on March 31, 2023 and 5.50x from March 31, 2024 and thereafter (the “RCF Financial Covenant”). The RCF Financial Covenant is calculated as the ratio of consolidated senior secured net debt to consolidated pro forma EBITDA (defined as net income (loss) excluding depreciation and amortization, interest expense, interest income and income tax expense) for the 12-month period preceding the relevant quarterly testing date and is tested quarterly on a rolling basis, subject to the Initial Facility (as defined in the RCF Agreement) being drawn on the relevant test date. The RCF Agreement does not include a minimum interest coverage ratio or other financial covenants.

The outstanding principal amount of each advance under the RCF Loans is payable on the last day of the interest period relating to such advance, unless such advance is rolled over on a cashless basis in accordance with customary rollover provisions contained in the RCF Agreement, with a final repayment on November 20, 2025.

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Termination of Prior Financing

The Company's previous debt consisted of two tranches of senior secured term loans in a principal amount of £145.8 million (\$196.5 million) with a cash interest rate of 8.25% plus 3-month LIBOR and €93.1 million (\$105.4 million) with a cash interest rate of 7.75% plus 3-month EURIBOR, respectively and a secured revolving facility loan in a principal amount of £20.0 million (\$27.0 million) with a cash interest rate on any utilization of 6.50% plus 3-month LIBOR (the "Prior Financing").

In connection with the issuance of the Senior Secured Notes and the entry into the RCF Agreement, on May 20, 2021, the Prior Financing was repaid in full and the senior facilities agreement (dated September 27, 2019, as amended and restated on June 25, 2020, see below) relating to the Prior Financing was terminated. No prepayment premium applied to the repayment (although customary break cost provisions applied). Debt fees of \$14.4 million were expensed to the Consolidated Statements of Operations and Consolidated Loss within Interest Expense as part of the repayment. In addition, on May 19, 2021, we terminated the interest rate swaps relating to the Prior Financing and applicable termination fees were settled on May 20, 2021 (see Note 14).

Senior Facilities Agreement

In connection with the NTG Acquisition, on September 27, 2019, the Company, together with certain direct and indirect wholly-owned subsidiaries, entered into a Senior Facilities Agreement with Lucid Agency Services Limited, as agent, Nomura International plc and Macquarie Corporate Holdings Pty Limited (UK Branch) as arrangers and/or bookrunners and each lender party thereto (the "Lenders"), pursuant to which the Lenders agreed to provide, subject to certain conditions, two tranches of senior secured term loans (the "Term Loans"), in an original principal amount of £140.0 million (\$188.7 million) and €90.0 million (\$101.9 million), respectively and a secured revolving facility loan in an original principal amount of £20.0 million (\$27.0 million). On October 1, 2019, the debt was funded and proceeds from the Term Loans were used to, among other things, pay the purchase price of the NTG Acquisition and to refinance existing indebtedness of the Company under the Note Purchase Agreement and prior Facility described below.

The new facilities were subject to covenant testing. These tests comprised a leverage ratio (consolidated total net debt/consolidated pro forma EBITDA) and a capital expenditure level. The leverage ratio was tested quarterly with the first test date being June 30, 2020. The capital expenditure level was tested annually with the first test date being December 31, 2019. There was also an annual excess cash flow calculation required, which, if positive and over certain de minimis limits, could have required early prepayment of part of the facilities.

The Term Loans had a 5-year duration and were repayable in full on October 1, 2024. The £140.0 million (\$188.7 million) loan initially carried a cash interest rate of 7.25% plus 3-month LIBOR, the €90.0 million (\$101.9 million) loan initially carried a cash interest rate of 6.75% plus 3-month EURIBOR. The £20.0 million (\$27.0 million) revolving credit facility is available until September 1, 2024 and initially carried a cash interest rate on any utilization at 5.50% plus 3-month LIBOR, with any unutilized amount initially carrying a cash interest cost at 30% of the applicable margin on the revolving credit facility loan.

On June 25, 2020, the Company, certain direct and indirect subsidiaries of the Company, Lucid Agency Services Limited, and Lucid Trustee Services Limited as security agent under the SFA and the Intercreditor Agreement (as defined in the SFA), entered into an Amendment and Restatement Agreement (the "ARA") with respect to the SFA.

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The ARA amended the SFA by, among other things, (i) capitalizing certain interest payments that fell due on April 1, 2020, (ii) resetting the leverage and capital expenditure financial covenants applicable under the SFA, removing certain rating requirements under the SFA, (iii) allowing the Company and its subsidiaries to incur additional indebtedness under the UK Coronavirus Large Business Interruption Loan Scheme under a stand-alone facility, which may rank *pari passu* or junior to the facilities under the SFA, in an amount not exceeding £10.0 million (\$13.5 million), (iv) removing certain rating requirements under the SFA, (v) limiting the ability of the Company and its subsidiaries to incur additional indebtedness, including by reducing the amount of general indebtedness the Company and its subsidiaries are permitted to incur and removing the ability to incur senior secured, second lien and unsecured indebtedness in an amount not exceeding the aggregate of (A) an unlimited amount, as long as, pro forma for the utilization of such indebtedness, the consolidated total net leverage ratio does not exceed the lower of 3.4:1 and the then applicable ratio with respect to the consolidated total net leverage financial covenant summarized further below, plus (B) an amount equal to the greater of £16.0 million (\$21.6 million) and 25% of the consolidated pro forma EBITDA of the Company and its subsidiaries for the relevant period (as defined in the SFA, but disregarding, for the purposes of calculating the usage of such cap, any financial indebtedness applied to refinancing other financial indebtedness, together with any related interest, fees, costs and expenses), (vi) increasing the margin applicable to the Facilities (as defined in the SFA) by 1%, to 8.25% plus 3-month LIBOR on the £145.8 million (\$196.5 million) loan (including capitalized interest payments of £5.8 million (\$7.8 million)), and to 7.75% plus 3-month EURIBOR on the €93.1 million (\$105.4 million) loan (including capitalized interest payments of €3.1 million (\$3.5 million)), respectively, and adding an additional payment-in-kind margin of 0.75% payable on any principal amounts outstanding under Facility B (as defined in the SFA) after September 24, 2021 (the “Relevant Date”), (vii) adding an exit fee payable by the Company with respect to any repayment or prepayment of Facility B after the Relevant Date at the time of such repayment or prepayment in an amount equal to 0.75% of the principal amount of Facility B being repaid or prepaid, (viii) removing any ability to carry forward or carry back any unused allowance under the capital expenditure financial covenant in the SFA and (ix) granting certain additional information rights to the Lenders under the SFA, including the provision of a budget, and certain board observation rights until December 31, 2022. All other material terms of the SFA remain unchanged in all material respects.

In consideration for the amendments listed above, the Company agreed to pay the Lenders an amendment fee equal to 1% of the Total Commitments (as defined in the SFA) after giving effect to the capitalization of the interest payment described above. The amendment fee was payable to the Lenders pro rata to their commitments under the SFA.

The modification to the SFA was not considered to be substantial in accordance with Topic 470-50 and was therefore not treated as a debt extinguishment. The amendment fees, amounting to \$3.1 million, were associated with the modified debt instrument and were to be amortized along with the existing unamortized debt issuance costs. Fees payable to third parties were expensed as incurred, resulting in \$1.0 million charged to interest expense for the year ended December 31, 2020.

Termination of Note Purchase Agreement and Prior Credit Facility

The Company’s previous debt included \$140.0 million of senior notes issued under a Note Purchase Agreement and Guaranty dated August 13, 2018 (the “NPA”) with a 5-year duration and a cash interest rate of 9% plus 3-month LIBOR borrowings and a revolving credit facility agreement dated August 13, 2018 (the “Prior Facility”) with a 3-year duration and 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 addition, the Company also had a 3-year, fixed-rate, cross-currency swap with respect to the NPA (see Note 14).

The termination of the Company’s prior existing indebtedness carried a prepayment premium of 3.00% of the amount repaid or prepaid, or \$4.2 million. No prepayment premium applied to the Company’s previous revolving facility Agreement. In addition, on October 1, 2019, the Company terminated the 3-year, fixed-rate, cross-currency swap and wrote off previously unamortized debt issuance costs amounting to \$7.3 million.

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Outstanding Debt and Finance Leases

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

	<u>Principal</u>	<u>Unamortized deferred financing charge</u>	<u>Book value, December 31, 2021</u>
		(in millions)	
Senior bank debt	\$ 316.7	\$ (7.7)	\$ 309.0
Finance lease liabilities	2.8	—	2.8
Total long-term debt outstanding	319.5	(7.7)	311.8
Less: current portion of long-term debt	(0.9)	—	(0.9)
Long-term debt, excluding current portion	\$ 318.6	\$ (7.7)	\$ 310.9

	<u>Principal</u>	<u>Unamortized deferred financing charge</u>	<u>Book value, December 31, 2020</u>
		(in millions)	
Senior bank debt	\$ 313.3	\$ (15.8)	\$ 297.5
Finance lease liabilities	0.8	—	0.8
Total long-term debt outstanding	314.1	(15.8)	\$ 298.3
Less: current portion of long-term debt	(0.6)	—	(0.6)
Long-term debt, excluding current portion	\$ 313.5	\$ (15.8)	\$ 297.7

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

Long term debt as of December 31, 2021 matures as follows:

<u>Fiscal period:</u>	<u>Senior bank debt</u>	<u>Finance leases</u>	<u>Total</u>
		(in millions)	
2022	\$ —	\$ 1.0	\$ 1.0
2023	—	0.5	0.5
2024	—	0.8	0.8
2025	—	0.5	0.5
2026	316.7	—	316.7
Total	\$ 316.7	\$ 2.8	\$ 319.5

14. Derivatives and Hedging Activities

On January 15, 2020, the Company entered into two interest rate swaps with UBS AG designed to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows on a portion of the previous floating rate debt facilities. The swaps fixed the variable interest rate of the debt facilities and provided protection over potential interest rate increases by providing a fixed rate of interest payment in return. The interest rate swaps were for £95.0 million (\$128.0 million) at a fixed rate of 0.9255% based on the 6-month LIBOR rate and for €60.0 million (\$67.9 million) at a fixed rate of 0.102% based on the 6-month EURIBOR rate.

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In connection with the issuance of the Senior Secured Notes and the entry into the RCF Agreement, on May 19, 2021, the Company terminated its two interest rate swaps. The termination fees were settled on May 20, 2021, for £1.3 million (\$1.9 million) and €0.1 million (\$0.2 million), respectively.

During the year ended December 31, 2019, the Company was party to a 3-year, fixed-rate, cross-currency swap with Nomura Global Financial Products Inc. which swapped the principal and interest payments that would be payable in USD under the NPA to Euros (“EUR”), in part, and GBP, in part. Specifically, with respect to the principal payments 1/3 of the payments would be swapped from USD to EUR and 2/3 of the payments from USD to GBP. Additionally, with respect to the interest payments 1/3 would be swapped from USD to GBP and 2/3 from USD to EUR. The swap provided for a foreign exchange rate of \$1.13935 USD per €1 EUR and \$1.27565 USD per £1 GBP. In connection with the entry into the Senior Facilities Agreement on October 1, 2019, the Company terminated the 3-year, fixed-rate, cross-currency swap and received a settlement of \$1.5 million.

Hedges of Multiple Risks

The Company’s objectives in using interest rate derivatives were to add stability to interest and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily used interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The Company had variable-rate borrowings denominated in currencies other than its functional currency in prior years. As a result, the Company was exposed to fluctuations in both the underlying variable interest rate and the foreign currency of the borrowing against its functional currency, GBP. During the year ended December 31, 2019, the Company used 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 designated 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 interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in Accumulated Other Comprehensive Income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. During the next twelve months, the Company estimates that an additional \$0.8 million will be reclassified as an increase to interest expense.

As of December 31, 2021, the Company did not have any derivatives. As of December 31, 2020, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest rate swaps	2	£95.0 million (\$128.0 million) at a fixed rate of 0.9255% based on the 6-month LIBOR rate and €60.0 million (\$67.9 million) at a fixed rate of 0.102% based on the 6 month EURIBOR rate

Non-designated Hedges

Derivatives not designated as hedges were not speculative and were used during the year ended December 31, 2019 to manage the Company’s exposure to interest rate movements and other identified risks but did not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships were recorded directly in earnings.

The Company did not have any derivatives that were not designated as hedges as of December 31, 2020. All derivatives as of December 31, 2020 were designated as cash flow hedges of interest rate risk.

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The Company did not have any derivative financial instruments as of December 31, 2021. 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 December 31, 2020.

	<u>Balance Sheet</u> <u>Classification</u>	<u>Asset</u> <u>Derivatives</u> <u>Fair Value</u> (in millions)	<u>Balance Sheet</u> <u>Classification</u>	<u>Liability</u> <u>Derivatives</u> <u>Fair Value</u> (in millions)
Derivatives designated as hedging instruments:				
Interest Rate Products	Fair Value of Hedging Instruments	\$ —	Other Current Liabilities and Long Term Derivative Liability	\$ (2.6)
Total derivatives designated as hedging instruments		<u>\$ —</u>		<u>\$ (2.6)</u>

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income for the year ended December 31, 2021.

	<u>Amount of Gain/(Loss)</u> <u>Recognized in</u> <u>Other</u> <u>Comprehensive</u> <u>Income on Derivative</u> (in millions)		<u>Location of Gain/(Loss)</u> <u>Reclassified from</u> <u>Accumulated Other</u> <u>Comprehensive</u> <u>Income into Income</u> (in millions)
Interest Rate Products	\$ 0.3	Interest Expense	\$ (1.5)
Total	<u>\$ 0.3</u>		<u>\$ (1.5)</u>

The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income for the year ended December 31, 2020.

	<u>Amount of Gain/(Loss)</u> <u>Recognized in</u> <u>Other</u> <u>Comprehensive</u> <u>Income on Derivative</u> (in millions)		<u>Location of Gain/(Loss)</u> <u>Reclassified from</u> <u>Accumulated Other</u> <u>Comprehensive</u> <u>Income into Income</u> (in millions)
Interest Rate Products	\$ (2.9)	Interest Expense	\$ (1.5)
Total	<u>\$ (2.9)</u>		<u>\$ (1.5)</u>

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The table below presents the effect of fair value and cash flow hedge accounting on accumulated other comprehensive income for the year ended December 31, 2019.

	Amount of Gain/(Loss) Recognized in Other Comprehensive Income on Derivative		Location of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Income into Income
	(in millions)		(in millions)
Interest Rate and Foreign Exchange Products	\$ 2.9	Interest Expense	\$ 1.2
		Foreign Currency Remeasurement	3.2
Total	\$ 2.9		\$ 4.4

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the year ended December 31, 2021.

	Interest Expense
	(in millions)
Total amounts of income and expense line items presented in the statement of operations and comprehensive loss in which the effects of fair value or cash flow hedges are recorded	\$ 44.3
Gain/(loss) on cash flow hedging relationships in Subtopic 815-20	\$ (1.5)

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the year ended December 31, 2020.

	Interest Expense
	(in millions)
Total amounts of income and expense line items presented in the statement of operations and comprehensive loss in which the effects of fair value or cash flow hedges are recorded	\$ 30.6
Gain/(loss) on cash flow hedging relationships in Subtopic 815-20	\$ (1.5)

The table below presents the effect of the Company's derivative financial instruments on the consolidated statements of operations for the year ended December 31, 2019.

	Interest Expense	Foreign Currency Remeasurement
	(in millions)	
Total amounts of income and expense line items presented in the statement of operations and comprehensive loss in which the effects of fair value or cash flow hedges are recorded	\$ 27.8	\$ (3.2)
Gain/(loss) on cash flow hedging relationships in Subtopic 815-20	\$ 1.2	\$ 3.2

The table below presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments in the consolidated statements of operations for the year ended December 31, 2019.

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<u>Derivatives Not Designated as Hedging Instruments under Subtopic 815-20</u>	<u>Location of Income Recognized in Income on Derivative</u>	<u>Amount of Income Recognized in Income on Derivative</u> (in millions)
Interest Rate and Foreign Exchange Products	Change in fair value of derivative liability	\$ 2.9

The table below presents a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of December 31, 2020. 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, a wholly-owned subsidiary of the Company, and UBS AG was documented using the 2002 Form and the ISDA standard set-off provision in Section 6(f) of the ISDA Master Agreement applied to both parties and was only modified to include Affiliates of the Payee. There was no CSA and thus there was no collateral posting.

Offsetting of Derivative Assets

December 31, 2020

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

Offsetting of Derivative Liabilities

December 31, 2020

	<u>Gross Amounts of Recognized Liabilities</u>	<u>Gross Amounts Offset in the Statement of Financial Position</u>	<u>Net Amounts of Liabilities presented in the Statement of Financial Position</u>	<u>Gross Amounts Not Offset in the Statement of Financial Position</u>		
				<u>Financial Instruments</u>	<u>Cash</u>	
					<u>Collateral Received</u>	<u>Net Amount</u>
(in millions)						
Fair value of hedging instrument	\$ 2.6	\$ —	\$ 2.6	\$ —	\$ —	\$ —

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15. Fair Value Measurements

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.
- Level 3: Unobservable inputs that are supported by little or no market activity that are significant to the fair value of the asset or liability. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that are unable to be corroborated with observable market data.

The fair value of our financial assets and liabilities is determined by reference to market data and other valuation techniques as appropriate. We believe the fair value of our financial instruments 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.

	<u>Level</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
		(in millions)	
Public Warrants (included in warrant liability)	1	\$ —	\$ 3.2
Long term receivable (included in other assets)	2	3.5	1.4
Private Placement Warrants (included in warrant liability)	2	—	9.8
Derivative liability (see note 14)	2	—	2.6

The fair value of our long-term senior debt as of December 30, 2021, was \$323.2 million, based upon quoted prices in the marketplace, which are considered Level 2 inputs.

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.

At December 31, 2021 and December 31, 2020, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

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16. 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 December 31, 2021 and December 31, 2020, there were no shares of preferred stock issued or outstanding.

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 December 31, 2020, the Company had 19,079,130 outstanding warrants to purchase an aggregate of 9,539,565 shares of the Company's common stock, which included 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"). The warrants became exercisable 30 days after the closing of the Merger and had an expiration date of December 23, 2021. Each warrant entitled 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. The warrants were able to be exercised only for a whole number of shares of common stock.

As of December 31, 2020, the warrants met the definition of a derivative under ASC 815 and were classified as a liability measured at fair value, with changes in fair value each period reported in earnings.

During the quarter ending December 31, 2021, (i) an aggregate of 2,651,129 shares of common stock were issued pursuant to the exercise of 5,302,258 Public Warrants and (ii) an aggregate of 1,027,836 shares of common stock were issued pursuant to the exercise (on a cashless basis) of 9,049,230 Private Warrants. There were no warrants outstanding as of December 31, 2021.

17. Stock-Based Compensation

The Company's stock-based compensation plans authorize awards of restricted stock units ("RSUs"), stock options and other equity-related awards. The Company's 2021 Omnibus Incentive Plan ("2021 Plan") was adopted by the Company's Board of Directors on April 12, 2021 and approved by our stockholders on May 11, 2021. The 2021 Plan succeeds the Company's 2018 Omnibus Incentive Plan (the "2018 Plan") such that shares subject to the 2018 Plan's unused reserve (e.g., as a result of termination or forfeiture of awards) are instead rolled over to the 2021 Plan. The Company has two other predecessor plans, the 2016 Long-Term Incentive Plan and the Second Long-Term Incentive Plan (collectively, the "Prior Plans"), whose available balances were terminated in connection with approval of the 2018 Plan. Although outstanding awards under the Prior Plans remain governed by the terms of the Prior Plans, no new awards may be granted or become available for grant under the Prior Plans.

As of December 31, 2021, there were (i) 1,552,284 shares subject to outstanding awards under the 2021 Plan, including 512,399 shares subject to performance-based target awards, 232,500 shares subject to market-price vesting conditions and 165,000 shares subject to awards as to which the applicable vesting conditions have been met which remain subject to deferred settlement; (ii) 751,934 shares subject to outstanding awards under the 2018 Plan, including 75,000 shares subject to performance-based target awards, 20,195 shares subject to awards that were previously subject to performance criteria that were determined to have been met for the applicable performance year which awards continue to remain subject to a time-based vesting schedule and 99,964 shares subject to awards as to which the applicable vesting conditions have been met which remain subject to deferred settlement; and (iii) 1,318,686 shares subject to outstanding awards under the Prior Plans as to which the applicable vesting conditions have been met which remain subject to deferred settlement. As of December 31, 2021, there were 1,490,785 shares available for new awards under the 2021 Plan (which includes shares rolled over from the 2018 Plan) and no shares available for new awards under the Prior Plans. All awards outstanding as of December 31, 2021 consisted of RSUs (including time-based RSUs, performance-based RSUs and stock price based RSUs).

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The Company also has an employee stock purchase plan (“ESPP”) that authorizes the issuance of up to an aggregate of 500,000 shares of common stock pursuant to purchases thereunder by employees. The ESPP, which was approved by stockholders in July 2017, is administered by the Compensation Committee which has discretion to designate the length of offering periods and other terms subject to the requirements of the ESPP. As of December 31, 2021, a total of 467,751 shares remained available for purchase under the ESPP.

A summary of the Company’s RSU activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested Outstanding at January 1, 2021	2,149,118	\$ 5.20
Granted ⁽¹⁾	1,728,236	\$ 10.15
Forfeited ⁽²⁾	(520,227)	\$ (5.66)
Vested ⁽³⁾	(1,317,873)	\$ (6.24)
Unvested Outstanding at December 31, 2021	<u>2,039,254</u>	<u>\$ 8.60</u>

- (1) The RSUs that were granted during the year ended December 31, 2021 included: (a) 48,466 RSUs under the Board’s compensation program for non-employee directors which vest during the year of grant and remain unsettled until the director leaves the Company; (b) 658,020 RSUs under an incentive program for management and other personnel, as to which one-half was in the form of performance-based RSUs that are conditioned on attainment of performance criteria for fiscal year 2021 and subject to a time-based service period through December 31, 2023 and the other one-half vests in instalments through December 31, 2023; and (c) sign-on awards covering an aggregate of 975,000 RSUs to members of senior management in connection with their entering into new employment agreements or amendments thereof which have vesting schedules through December 31, 2025, including 750,000 RSUs to our Executive Chairman (comprised of a mix of time-based RSUs, performance-based RSUs and stock price based RSUs).
- (2) The RSUs that were forfeited during the year ended December 31, 2021 included 468,517 RSUs subject to market price vesting conditions that had a satisfaction deadline of December 23, 2021. The applicable market price targets were not met by the deadline.
- (3) The RSUs that vested during the year ended December 31, 2021 included: (a) 213,466 RSUs that remain subject to deferred settlement terms such that the awards do not settle until the participant’s services terminate; (b) 285,069 RSUs that vested June 30, 2021, resulting in 160,390 shares being issued in connection with the net settlement thereof and 124,679 withheld for taxes; and (c) 819,338 RSUs that vested on December 31, 2021, resulting in 442,817 shares being issued in settlement thereof and 376,521 withheld for taxes (the processing of the issuance and delivery of such 442,817 shares did not occur until January 2022).

The Company issued a total of 324,122 shares during the year ended December 31, 2021 in connection with the vesting of RSUs, of which 160,390 were issued in net settlement of RSUs that vested on June 30, 2021 and 163,732 were issued in connection with the net settlement of RSUs that vested on December 31, 2020.

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A summary of the Company's Restricted Stock activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested Outstanding at January 1, 2021	624,116	\$ 5.63
Granted	—	\$ —
Forfeited ⁽¹⁾	(624,116)	\$ (5.63)
Vested	—	\$ —
Unvested Outstanding at December 31, 2021	—	\$ —

(1) Reflects forfeiture of unvested restricted stock awards which had been subject to market price vesting conditions that had a satisfaction deadline of December 23, 2021. The applicable market price targets were not met by the deadline.

Stock-based compensation is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. For performance awards that are contingent upon the Company achieving certain pre-determined financial performance targets, compensation expense is calculated based on the number of shares expected to vest after assessing the probability that the performance criteria will be met. Determining the probability of achieving a performance target requires estimates and judgment. For market-based awards that are contingent upon the Company's stock achieving certain pre-determined price targets, compensation expense is calculated based upon the determination of the fair value of the awards as derived through multiple running of the Monte Carlo valuation model, with the fair value recognized on a straight-line basis over the requisite service period.

The Company recognized stock-based compensation expense as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
		(in millions)	
Restricted Stock and RSUs	\$ 11.9	\$ 4.6	\$ 8.7
Payroll taxes on vesting of RSUs	1.1	0.2	0.3
	<u>\$ 13.0</u>	<u>\$ 4.8</u>	<u>\$ 9.0</u>

Total unrecognized compensation expense related to unvested stock awards and unvested RSUs at December 31, 2021 amounts to \$11.6 million and is expected to be recognized over a weighted average period of 1.8 years.

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18. Accumulated Other Comprehensive Loss (Income)

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

	Foreign Currency Translation Adjustments	Change in Fair Value of Hedging Instrument	Unrecognized Pension Benefit Costs	Accumulated Other Comprehensive (Income)
	(in millions)			
Balance at January 1, 2019	\$ (78.9)	\$ (0.1)	\$ 23.1	\$ (55.9)
Change during the period	2.4	1.5	6.9	10.8
Balance at December 31, 2019	(76.5)	1.4	30.0	(45.1)
Change during the period	5.4	1.4	7.2	14.0
Balance at December 31, 2020	(71.1)	2.8	37.2	(31.1)
Change during the period	(0.4)	(1.8)	(10.5)	(12.7)
Balance at December 31, 2021	<u>\$ (71.5)</u>	<u>\$ 1.0</u>	<u>\$ 26.7</u>	<u>\$ (43.8)</u>

Included within accumulated other comprehensive income is an amount of \$1.0 million relating to the change in fair value of discontinued hedging instruments. This amount will be amortized as a charge to income over the life of the original instruments, in accordance with US GAAP.

19. Net Loss per Share

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

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
RSUs	3,622,904	3,522,140	2,744,842
Unvested Restricted Stock	—	624,116	624,116
Stock Warrants	—	9,539,565	9,539,565
	<u>3,622,904</u>	<u>13,685,821</u>	<u>12,908,523</u>

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20. Other Finance (Expense) Income

Other finance (expense) income consisted of the following:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)		
Pension interest cost	\$ (1.6)	\$ (2.2)	\$ (2.7)
Expected return on pension plan assets	2.7	3.1	3.5
Foreign currency translation on senior bank debt	4.6	(5.6)	(0.8)
Foreign currency remeasurement on hedging instrument	—	—	3.2
	<u>\$ 5.7</u>	<u>\$ (4.7)</u>	<u>\$ 3.2</u>

21. Income Taxes

The effective tax rate for the years ended December 31, 2021 and 2020 were 4.2% and (1.2)% respectively. For the year ended December 31, 2021, the Company's effective tax rate differs from the federal statutory rate primarily due to losses in certain jurisdictions where the Company presently has recorded a valuation allowance against the related tax benefit and non-deductible officer's compensation. For the year ended December 31, 2020, the Company's effective tax rate differs from the federal statutory rate primarily due to losses in certain jurisdictions where the Company has recorded a valuation allowance against the related tax benefit.

The components of earnings (loss) before income taxes on the Company's consolidated statement of operations by the United States and foreign jurisdictions were as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)		
United States	\$ (13.5)	\$ (14.4)	\$ (19.3)
Foreign jurisdictions	(24.8)	(17.6)	(21.7)
Total loss before income taxes	<u>\$ (38.3)</u>	<u>\$ (32.0)</u>	<u>\$ (41.0)</u>

Income tax provision (benefit), as reflected in the Company's consolidated statement of operations, consists of the following:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)		
Current (benefit) provision			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Foreign	(1.6)	0.4	0.1
Total current	<u>\$ (1.6)</u>	<u>\$ 0.4</u>	<u>\$ 0.1</u>

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	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
	(in millions)		
Deferred (benefit) provision			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Foreign	—	—	—
Total current	\$ —	\$ —	\$ —

The differences between the federal statutory tax rate and our effective rate are reflected in the following table for the years ended December 31, 2021, 2020 and 2019:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	(in millions)		
Statutory income tax	21.0%	21.0%	21.0%
State taxes (net of federal)	0.0%	0.0%	3.3%
Non-deductible officer compensation	(5.4)%	0.0%	0.0%
Tax effect of other permanent differences	(1.5)%	(6.2)%	(11.9)%
Effect of foreign taxes	(0.3)%	0.5%	(1.5)%
True ups	4.6%	0.1%	3.2%
Rate change	0.0%	0.0%	(0.5)%
Valuation allowance	(14.2)%	(16.6)%	(13.8)%
Effective income tax rate	4.2%	(1.2)%	(0.2)%

The net deferred tax assets and liabilities arising from temporary differences are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Depreciation	\$ 71.4	\$ 48.0
Net operating losses	31.6	26.5
Other temporary differences	4.4	6.2
Total gross deferred tax assets	107.3	80.7
Valuation allowance balance	(104.5)	(76.4)
Gross deferred tax assets	2.9	4.3
Intangible assets	(0.3)	(2.2)
Other temporary differences	(2.5)	(2.1)
Gross deferred tax liabilities	(2.9)	(4.3)
Net deferred tax assets	\$ —	\$ —

Changes in the valuation allowance are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	(in millions)	
Beginning balance	\$ 76.4	\$ 65.7
Increase (decrease)	28.1	10.7
Reversal of allowance	—	—
Ending balance	\$ 104.5	\$ 76.4

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As of December 31, 2021 and 2020, the Company has \$39.5 million and \$34.8 million, respectively, of gross federal net operating loss carry forwards, the earliest of which will begin to expire in 2034. 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. As of December 31, 2021 and 2020 the Company also has gross net operating losses in foreign jurisdictions, primarily the United Kingdom, totaling \$83.2 million and \$89.9 million, respectively. The majority of these net operating losses have an unlimited carry forward period. It is anticipated that these losses will not be utilized due to continuing losses in these jurisdictions, as such, the losses are fully offset with a valuation allowance.

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 full valuation allowances of \$104.5 million and \$76.4 million as of December 31, 2021 and 2020.

The Company has not recognized deferred tax liabilities in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. We do not provide for taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed because we intend to invest such undistributed earnings indefinitely outside of the United States.

Currently, there are no federal, state or foreign jurisdiction tax audits pending. The Company's corporate federal and state tax returns from 2018 to 2020 remain subject to examination by tax authorities and the Company's foreign tax returns from 2014 to 2020 remain subject to examination by tax authorities.

22. Related Parties

HG Vora Special Opportunities Master Fund Limited ("HG Vora") (a purchaser of our Senior Secured Notes issued on May 20, 2021) was a significant stockholder until October 12, 2021. Interest expense payable to HG Vora while a related party for the year ended December 31, 2021 amounted to \$1.7 million.

HG Vora previously held promissory notes of the Company issued under a note purchase agreement and guaranty dated August 13, 2018 which were repaid on October 1, 2019 (see note 13). The interest expense payable with respect to the promissory notes for the year ended December 31, 2019 amounted to \$12.3 million and the repayment of the promissory notes included an exit payment premium in the amount of \$4.2 million for repayment on an early basis.

Macquarie Corporate Holdings Pty Limited (UK Branch) ("Macquarie UK"), (an arranger and lending party under our RCF Agreement), and Macquarie Capital (Europe) Limited ("Macquarie EUR"), (an arranger and initial purchaser of our Senior Secured Notes), are affiliates of MIHI LLC, which beneficially owned approximately 11.4% of our common stock as of December 31, 2021. Macquarie UK was also one of the lending parties with respect to the Prior Financing and its associated revolving credit facility. The portion of the Company's aggregate senior debt of \$316.7 million at December 31, 2021, and \$313.3 million at December 31, 2020 held by Macquarie UK at December 31, 2021 and December 31, 2020 was \$0.0 million and \$30.7 million, respectively. Interest expense payable to Macquarie UK for the years ended December 31, 2021, 2020 and 2019 amounted to \$0.9 million, \$2.2 million and \$0.5 million, respectively. In addition, \$0.0 million and \$0.6 million of accrued interest payable was due to Macquarie UK at December 31, 2021 and December 31, 2020, respectively and Macquarie EUR received \$0.6 million of \$5.5 million of fees paid in connection with the issuance of the Senior Secured Notes and the RCF in the year to December 31, 2021, and Macquarie UK received \$0.3 million of a total \$3.1 million of amendment fees paid with respect to the Prior Financing in the year ended December 31, 2020. MIHI LLC is also a party to a stockholders agreement with the Company and other stockholders, dated December 23, 2016, pursuant to which, subject to certain conditions, MIHI LLC, jointly with Hydra Industries Sponsor LLC, are permitted to designate two directors to be nominated for election as directors of the Company at any annual or special meeting of stockholders at which directors are to be elected, until such time as MIHI LLC and Hydra Industries Sponsor LLC in the aggregate hold less than 5% of the outstanding shares of the Company.

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We incurred certain offering expenses in connection with an underwritten public offering of shares held by a significant stockholder, the Landgame Trust, which closed on June 1, 2021, as to which our expenses were reimbursed by the stockholder. For the year ended December 31, 2021, the aggregate amount invoiced for reimbursement was \$0.2 million. The stockholder sold an aggregate of 6,217,628 shares in the offering (including 810,995 shares subject to an over-allotment option that was exercised in full) at an offering price of \$9.25 per share, less underwriting discounts and commissions of \$0.4625 per share. One of the participating underwriters in the offering was Macquarie Capital (USA) Inc., an affiliate of MIHI LLC (see paragraph above), pursuant to which it purchased 870,468 of the shares including 113,539 shares subject to the over-allotment option.

The Company held a 40% non-controlling equity interest in Innov8 Gaming Limited (“Innov8”) from October 2019 until April 2020 when the Company disposed of its interest. Revenue earned from Innov8 while a related party for the year ended December 31, 2020 and 2019 amounted to \$0.6 million and \$0.4 million, respectively and purchases from Innov8 while a related party for the year ended December 31, 2020 and 2019 amounted to \$0.2 million and \$0.0 million, respectively. Amounts owed by Innov8 at December 31, 2019 amounted to \$0.9 million. The value of the investment was impaired by \$0.7 million to \$Nil in March 2020 prior to disposal.

23. Leases

The Company as Lessee

The Company is party to operating leases with third parties with respect to various real estate and vehicles. Real estate leases typically include a lease (of the property) and a non-lease (provision of services) component which are accounted for separately. Where lease costs are variable due to future rent reviews, these are treated as part of the lease asset and lease liabilities as they are considered to qualify as variable lease costs which are subject to an index or rate. These costs are included at the amount prior to any reviews, as it is not permitted to estimate future rent reviews. Where real estate leases contain an option to terminate, any period beyond the option date is only included as part of the lease term if the Company is reasonably certain not to exercise the option. Vehicle leases typically contain a lease (of the vehicle) and a non-lease (provision of services) component which are accounted for separately.

The leases have remaining terms of 1 to 11 years.

During the year to December 31, 2021 and 2020, certain concessions were granted with respect to the Company’s operating leases in light of Covid-19. These have taken the form of lease extensions, where nothing is paid for a period of time with that same period of time and payments added onto the lease at the end, payment holidays, where payments are deferred until a later date, but with no lease extension, and discounted payments, where payments are reduced and are not repaid either at a later date or through lease extensions. The Company has elected to use the practical expedient granted by the FASB and account for the concessions as if they were part of the enforceable rights and obligations of the parties under the existing lease contract for all affected operating leases. Lease extensions and discounted payments are accounted using the ‘cash basis’ approach, with the lease liability and right-of-use asset continuing to be accounted for as if payments are still being made under the original terms of the lease. Payment holidays are accounted for using the ‘remeasurement consistent with resolving a contingency’ approach, which involves remeasuring the liability and the right-of-use asset and continuing to recognize the total cost of the lease on a straight line basis over the period to which it relates.

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The Company is also party to finance leases with third parties, with respect to gaming machines and fit out works at the Company's main UK office. The leases have remaining terms of between 4 and 36 months.

The components of lease expense were as follows:

	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
	(in millions)		
Finance lease costs:			
Depreciation	\$ 0.5	\$ 0.1	\$ —
Interest	0.2	0.1	—
Operating lease costs	4.4	4.3	2.1
Short-term lease costs	1.3	1.5	0.9
Variable lease costs	2.9	1.7	0.7
Total	<u>\$ 9.3</u>	<u>\$ 7.7</u>	<u>\$ 3.7</u>
		<u>December 31, 2021</u>	<u>December 31, 2020</u>
Weighted average remaining lease term – finance leases		39.1 months	16.0 months
Weighted average remaining lease term – operating leases		69.4 months	79.2 months
Weighted average discount rate – finance leases		8.9%	7.9%
Weighted average discount rate – operating leases		<u>8.7%</u>	<u>8.6%</u>

Assets leased under finance leases had a cost of \$4.2 million and \$1.7 million at December 31, 2021 and 2020, respectively, and accumulated depreciation associated with these assets was \$0.6 million and \$0.1 million at December 31, 2021 and 2020, respectively.

Future minimum finance lease payments as of December 31, 2021 were as follows:

<u>Year ending December 31, (in millions)</u>	
2022	\$ 1.2
2023	0.7
2024	1.0
2025	0.6
2026	—
Thereafter	—
Total future minimum lease payments	<u>3.5</u>
Less: imputed interest	(0.7)
Total	<u>\$ 2.8</u>

Future minimum operating lease payments as of December 31, 2021 were as follows:

<u>Year ending December 31, (in millions)</u>	
2022	\$ 3.5
2023	2.3
2024	2.1
2025	1.4
2026	1.1
Thereafter	3.8
Total future minimum lease payments	<u>14.2</u>
Less: imputed interest	(3.5)
Total	<u>\$ 10.7</u>

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The Company as Lessor

The Company is party to leases with third parties with respect to various gaming machines. Gaming machine leases typically include a lease (of the machine) and a non-lease (provision of software services) component.

The leases have remaining terms of 1 to 5 years.

During the year to December 31, 2021 and 2020, the Company granted concessions to customers in the form of lease extensions granted during the lockdown period, where nothing is paid during the concession period, with that same period of time and payments added onto the lease at the end. The Company has elected to use the practical expedient granted by the FASB and account for the concessions as if they were part of the enforceable rights and obligations of the parties under the existing lease contract for all affected leases.

Assets leased under operating leases had a cost of \$6.8 million and \$5.9 million at December 31, 2021 and 2020, respectively, and accumulated depreciation associated with these assets was \$2.8 million and \$1.8 million at December 31, 2021 and 2020, respectively. Depreciation expense for the year ended December 31, 2021, 2020 and 2019 amounted to \$1.4 million, \$1.5 million and \$0.3 million, respectively.

The components of lease income were as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)		
Interest receivable from sales type leases	\$ —	\$ 0.1	\$ 0.1
Operating lease income	3.3	2.3	0.9
Variable income from sales type leases	0.1	0.7	0.3
Total	\$ 3.4	\$ 3.1	\$ 1.3

Future minimum sales type lease receivables as of December 31, 2021 were as follows:

Year ending December 31, (in millions)	
2022	\$ 0.7
2023	0.3
2024	—
2025	—
2026	—
Total future minimum lease receivables	1.0
Less: imputed interest	—
Total	\$ 1.0

Future minimum operating lease receivables as of December 31, 2021 were as follows:

Year ending December 31, (in millions)	
2022	\$ 1.1
2023	1.6
2024	2.2
2025	—
2026	—
Total future minimum lease receivables	\$ 4.9

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

25. Pension Plan

We operate a defined contribution plan in the US and both defined benefit and defined contribution pension schemes in the UK. The defined contribution scheme assets are held separately from those of the Company in an independently administered fund. The defined contribution pension cost charge represents contributions payable by the Company and amounted to \$2.4 million, \$2.3 million and \$2.1 million for the year ended December 31, 2021, 2020 and 2019, respectively. Contributions totaling \$0.8 million and \$0.3 million were payable to the fund as at December 31, 2021 and 2020, respectively.

The defined benefit scheme 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.

The latest triennial actuarial valuation of the scheme as at March 31, 2018 was finalized in May 2019. The actuarial valuation revealed that the statutory funding objective was not met, i.e. there were insufficient assets to cover the Scheme's Technical Provisions and there was a funding shortfall of £5.6 million (\$7.5 million) at the valuation date. Under the Recovery Plan and Schedule of Contributions agreed between the Trustee and the Company, on March 15, 2019, it was agreed that no further deficit reduction contributions shall be made to the scheme, except in the event that the scheme funding level does not progress as expected, in which case contingent contributions would be made subject to an agreed maximum amount. It was determined that contingent contributions of \$1.2 million and expense contributions of \$0.3 million would be payable during the year ended December 31, 2021, with an additional \$0.4 million of contingent contributions deferred from the year ended December 31, 2020 paid during the year ended December 31, 2021. In January 2022, the funding level of the scheme has been tested against the expected position at December 31, 2021 and it has been determined that further contingent contributions of \$1.2 million and expense contributions of \$0.4 million will be payable during the year ending December 31, 2022.

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 scheme's 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 scheme's liabilities and designed an asset allocation to achieve a higher return while maintaining a cautious approach to meeting the scheme's liabilities. The trustees undertake periodic reviews of the investment strategy and take advice from their investment advisors. They consider 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 current strategy is to hold 22% in a diversified growth fund, 12% in diversified credit, 15% in equity-linked bonds, 6% in a liability-driven investment fund and 45% in a buy-in policy.

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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 December 31, 2021 and December 31, 2020.

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 December 31, 2021 and December 31, 2020, 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.

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 the respective measurement dates:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(in millions)	
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 127.8	\$ 110.4
Interest cost	1.6	2.2
Prior service cost	—	—
Actuarial (gain) loss	(9.8)	14.5
Benefits paid	(3.5)	(4.1)
Foreign currency translation adjustments	(1.4)	4.8
Benefit obligation at end of period	<u>\$ 114.7</u>	<u>\$ 127.8</u>
Change in plan assets:		
Fair value of plan assets at beginning of period	\$ 118.7	\$ 107.3
Actual gain on plan assets	2.5	9.8
Employer contributions	1.5	1.6
Benefits paid	(3.5)	(4.1)
Foreign currency translation adjustments	(1.5)	4.1
Fair value of assets at end of period	<u>\$ 117.7</u>	<u>\$ 118.7</u>
Amount recognized in the consolidated balance sheets:		
Overfunded (Unfunded) status (non-current)	<u>\$ 3.0</u>	<u>\$ (9.1)</u>
Net amount recognized	<u>\$ 3.0</u>	<u>\$ (9.1)</u>

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

	<u>Year Ended December 31, 2021</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
		(in millions)	
Components of net periodic pension (benefit) cost:			
Interest cost	\$ 1.6	\$ 2.2	\$ 2.7
Expected return on plan assets	(2.7)	(3.1)	(3.5)
Amortization of net loss	0.9	0.6	0.3
Net periodic (benefit) cost	<u>\$ (0.2)</u>	<u>\$ (0.3)</u>	<u>\$ (0.5)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$114.7 million and \$127.8 million as of December 31, 2021 and December 31, 2020, respectively. The overfunded (underfunded) status of our defined benefit pension plans recorded as an asset (liability) in our consolidated balance sheets as of December 31, 2021 and December 31, 2020 was \$3.0 million and \$(9.1) million, 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 \$0.5 million, \$nil and \$nil, respectively.

The fair value of the plan assets at December 31, 2021 by asset category is presented below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		(in millions)		
Diversified fund	\$ —	\$ 79.1	\$ —	\$ 79.1
Buy-in contract	—	—	38.1	38.1
Cash and other current assets	0.5	—	—	0.5
Total	<u>\$ 0.5</u>	<u>\$ 79.1</u>	<u>\$ 38.1</u>	<u>\$ 117.7</u>

The fair value of the plan assets at December 31, 2020 by asset category is presented below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		(in millions)		
Diversified fund	\$ —	\$ 75.1	\$ —	\$ 75.1
Buy-in contract	—	—	42.9	42.9
Cash	0.7	—	—	0.7
Total	<u>\$ 0.7</u>	<u>\$ 75.1</u>	<u>\$ 42.9</u>	<u>\$ 118.7</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.

	December 31, 2021	December 31, 2020
Discount rate	2.00%	1.30%
Expected return on assets	3.00%	2.30%
RPI inflation	3.25%	2.90%
CPI inflation – pre 2030	2.25%	1.90%
CPI inflation – post 2030	3.05%	2.70%
Pension increases – pre-2006 service	3.15%	2.90%
Pension increases – post-2006 service	2.20%	2.10%
Pension increases – post 1988 GMP – pre 2030	2.10%	1.80%
Pension increases – post 1988 GMP – post 2030	2.60%	2.40%

The following benefit payments are expected to be paid:

	(in millions)	
2022	\$	3.1
2023	\$	3.1
2024	\$	3.1
2025	\$	3.4
2026	\$	3.6
2027 to 2031	\$	21.0

26. Segment 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 reporting unit. This information is used for purposes of allocating resources and evaluating financial performance.

The Company operates its business along four operating segments, which are segregated on the basis of revenue stream: Gaming, Virtual Sports, Interactive and Leisure. 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 years ended December 31, 2021, December 31, 2020 and December 31, 2019, 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, right of use assets, cash, prepaid expenses and property and equipment and software development costs relating to corporate/shared functions. All acquisition and integration related transaction expenses are allocated as corporate function costs.

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Segment Information
Year Ended December 31, 2021

	<u>Gaming</u>	<u>Virtual Sports</u>	<u>Interactive</u>	<u>Leisure</u>	<u>Corporate Functions</u>	<u>Total</u>
	(in millions)					
Revenue:						
Service	\$ 58.8	\$ 36.0	\$ 22.8	\$ 65.7	\$ —	\$ 183.3
Product sales	22.6	—	—	3.0	—	25.6
Total revenue	81.4	36.0	22.8	68.7	—	208.9
Cost of sales, excluding depreciation and amortization:						
Cost of service	(12.8)	(1.9)	(3.7)	(15.9)	—	(34.3)
Cost of product sales	(14.4)	—	—	(2.0)	—	(16.4)
Selling, general and administrative expenses	(28.1)	(7.1)	(6.1)	(35.1)	(20.8)	(97.2)
Stock-based compensation expense	(1.8)	(0.8)	(0.6)	(0.6)	(9.2)	(13.0)
Acquisition and integration related transaction expenses	—	—	—	—	(1.6)	(1.6)
Depreciation and amortization	(22.5)	(3.4)	(3.2)	(16.1)	(1.8)	(47.0)
Segment operating income (loss)	1.8	22.8	9.2	(1.0)	(33.4)	(0.6)
Net operating loss						\$ (0.6)
Total assets at December 31, 2021	\$ 100.5	\$ 61.6	\$ 12.3	\$ 85.7	\$ 71.6	\$ 331.7
Total goodwill at December 31, 2021	\$ 1.4	\$ 47.4	\$ 0.4	\$ 33.5	\$ —	\$ 82.7
Total capital expenditures for the year ended December 31, 2021	\$ 10.9	\$ 3.3	\$ 3.7	\$ 8.9	\$ 1.4	\$ 28.2

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Year Ended December 31, 2020

	<u>Gaming</u>	<u>Virtual Sports</u>	<u>Interactive</u>	<u>Leisure</u>	<u>Corporate Functions</u>	<u>Total</u>
	(in millions)					
Revenue:						
Service	\$ 92.2	\$ 32.4	\$ 13.3	\$ 40.8	\$ —	\$ 178.7
Product sales	18.3	—	—	2.8	—	21.1
Total revenue	110.5	32.4	13.3	43.6	—	199.8
Cost of sales, excluding depreciation and amortization:						
Cost of service	(15.7)	(2.9)	(1.9)	(9.6)	—	(30.1)
Cost of product sales	(12.4)	—	—	(2.0)	—	(14.4)
Selling, general and administrative expenses	(24.5)	(4.4)	(3.9)	(30.8)	(21.2)	(84.8)
Stock-based compensation expense	(0.8)	(0.4)	(0.3)	(0.1)	(3.2)	(4.8)
Acquisition and integration related transaction expenses	—	—	—	—	(7.0)	(7.0)
Depreciation and amortization	(27.6)	(3.7)	(2.3)	(16.9)	(1.8)	(52.3)
Segment operating income (loss)	29.5	21.0	4.9	(15.8)	(33.2)	6.4
Net operating income						\$ 6.4
Total assets at December 31, 2020	\$ 93.9	\$ 64.4	\$ 8.5	\$ 87.0	\$ 70.3	\$ 324.1
Total goodwill at December 31, 2020	\$ 1.4	\$ 48.0	\$ 0.4	\$ 33.9	\$ —	\$ 83.7
Total capital expenditures for the year ended December 31, 2020	\$ 8.9	\$ 4.8	\$ 2.7	\$ 8.7	\$ 4.9	\$ 30.0

Year Ended December 31, 2019

	<u>Gaming</u>	<u>Virtual Sports</u>	<u>Interactive</u>	<u>Leisure</u>	<u>Corporate Functions</u>	<u>Total</u>
	(in millions)					
Revenue:						
Service	\$ 73.8	\$ 33.4	\$ 4.7	\$ 22.6	\$ —	\$ 134.5
Product sales	17.7	—	—	1.2	—	18.9
Total revenue	91.5	33.4	4.7	23.8	—	153.4
Cost of sales, excluding depreciation and amortization:						
Cost of service	(18.1)	(2.6)	(0.7)	(4.0)	—	(25.4)
Cost of product sales	(12.0)	—	—	(0.9)	—	(12.9)
Selling, general and administrative expenses	(29.7)	(6.0)	(4.0)	(12.7)	(18.0)	(70.4)
Stock-based compensation expense	(1.0)	(0.6)	(0.2)	(0.1)	(7.1)	(9.0)
Acquisition and integration related transaction expenses	—	—	—	—	(6.7)	(6.7)
Depreciation and amortization	(30.4)	(2.6)	(2.9)	(3.8)	(2.3)	(42.0)
Segment operating income (loss)	0.3	21.6	(3.1)	2.3	(34.1)	(13.0)
Net operating loss						\$ (13.0)
Total capital expenditures for the year ended December 31, 2019	\$ 14.0	\$ 4.5	\$ 1.4	\$ 2.7	\$ 2.6	\$ 25.2

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Geographic Information

Geographic information for revenue is set forth below:

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	(in millions)		
Total revenue			
UK	\$ 149.1	\$ 152.3	\$ 103.7
Greece	18.6	17.0	20.7
Rest of world	41.2	30.5	29.0
Total	\$ 208.9	\$ 199.8	\$ 153.4

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

	December 31, 2021	December 31, 2020
	(in millions)	
UK	\$ 90.0	\$ 101.8
Greece	11.6	18.2
Rest of world	21.0	11.4
Total	\$ 122.6	\$ 131.4

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

27. Customer Concentration

During the year ended December 31, 2021, no customers represented at least 10% of revenues. During the year ended December 31, 2020, one customer represented at least 10% of revenues, accounting for 22% of the Company's revenues. This customer was served by the Gaming, Virtual Sports and Interactive segments. During the year ended December 31, 2019, two customers represented at least 10% of revenues, accounting for 14% and 13% of the Company's revenues. The first customer was served by the Gaming, Virtual Sports and Interactive segments, the second customer was served by the Gaming and the Virtual Sports segments.

At December 31, 2021 and 2020, there were no customers that represented at least 10% of the Company's accounts receivable.

28. 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. Other than as described below, the Company did not identify subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

In January 2022, the Company sold its Italian VLT business, including all terminal and other assets, staff costs and facilities and contracts for total proceeds of €1.2 million (\$1.4 million), recognizing a profit on disposal of €0.8 million (\$0.9 million). The Company continues to serve these Italian markets in the form of the provision of platform and games.

PART IV

ITEM 16. FORM 10-K SUMMARY.

None.

Exhibits

(c) Exhibits.

Exhibit

Exhibit Number	Description
2.1	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).
2.2	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).
2.3	Share Purchase Agreement, dated as of June 11, 2019, by and between Inspired Gaming (UK) Limited and Novomatic UK Ltd. (incorporated herein by reference to Exhibit 2.1 of the Current Report on Form 8-K of the Company, filed with the SEC on June 11, 2019).
3.1(a)	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).
3.1(b)	Certificate of Elimination of Series A Junior Participating Preferred Stock, dated August 13, 2020 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K of the Company, filed with the SEC on August 14, 2020).
3.2	Amended and Restated Bylaws of Inspired Entertainment, Inc. (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K Company, filed with the SEC on November 11, 2019).
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*	Description of Securities.
4.5	Indenture, dated as of May 20, 2021, among Inspired Entertainment (Financing) PLC, as issuer, the Company, as a guarantor, the subsidiaries of the Company named therein, as additional guarantors, GLAS Trustees Limited, as trustee, GLAS Trust Corporation Limited as security agent and GLAS Trust Company LLC as paying agent, transfer agent and registrar (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K of the Company, filed with the SEC on May 20, 2021).
4.6	Form of 7.875% Senior Secured Notes due 2026 (included in Exhibit 4.5).
10.1	Super Senior Revolving Credit Facilities Agreement, dated as of May 20, 2021, among the Company, Gaming Acquisition Limited, Inspired Entertainment (Financing) PLC and Inspired Gaming (UK) Limited as original borrowers, the subsidiaries of the Company named therein as original guarantors, Global Loan Agency Services Limited as agent, GLAS Trust Corporation Limited as security agent and Barclays Bank plc and Macquarie Corporate Holdings Pty Limited (UK Branch) as arrangers and original lenders (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed with the SEC on May 20, 2021).

Exhibit Number	Description
10.2	<u>Form of Director and Officer Indemnity Agreement (incorporated herein 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).</u>
10.3	<u>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).</u>
10.4#	<u>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).</u>
10.5#	<u>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).</u>
10.6#	<u>Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Annual Report on Form 10-K of the Company, filed with the SEC on December 10, 2018).</u>
10.7#*	<u>Inspired Entertainment, Inc. 2021 Omnibus Incentive Plan.</u>
10.8#	<u>Forms of Grant Agreements for fiscal year 2019 under the Inspired Entertainment, Inc. 2018 Omnibus Incentive Plan (Time-Based Form of Agreement and Performance-Based Form of Agreement) (incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 10, 2019).</u>
10.9#	<u>Inspired Entertainment, Inc. 2021 Short-Term Incentive Bonus Plan. (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 12, 2021)</u>
10.10#	<u>Employment Agreement, dated as of October 9, 2020, by and between the Company and A. Lorne Weil (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 13, 2020).</u>
10.11#	<u>Letter Agreement, dated March 27, 2020, between the Company and A. Lorne Weil (incorporated by reference herein to Exhibit 10.14 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).</u>
10.12#	<u>Letter, dated April 21, 2021, from the Company to A. Lorne Weil (incorporated by reference herein to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on May 14, 2021).</u>
10.13#	<u>Addendum, effective June 21, 2021, to the Employment Agreement dated October, 9, 2020 by and between the Company and A. Lorne Weil (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company, filed with the Company on June 24, 2021).</u>
10.14#	<u>Employment Agreement, dated February 17, 2020, between Inspired Entertainment, Inc. and Brooks H. Pierce (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).</u>
10.15#	<u>Letter Agreement, dated March 28, 2020, between Inspired Entertainment, Inc. and Brooks H Pierce (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).</u>
10.16#	<u>Letter Agreement, dated July 21, 2021, by and between the Company and Brooks H. Pierce (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 23, 2021).</u>
10.17#	<u>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).</u>
10.18#	<u>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).</u>

Exhibit Number	Description
10.19#	Amendment effective January 31, 2020, to the Employment Agreement dated December 14, 2016 (as amended) by and between the Company and Daniel B. Silvers (incorporated herein by reference to Exhibit 99.1 to the Current Report on Form 8-K of the Company, filed with the SEC on February 6, 2020).
10.20#	Letter Agreement, dated March 28, 2020, between the Company and Daniel B. Silvers (incorporated herein by reference to Exhibit 10.20 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).
10.21#	Employment Agreement, dated August 3, 2021, by and between IG UK and Stewart F.B. Baker (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 5, 2021).
10.22#	Letter Agreement, dated March 30, 2020, between the Company. and Stewart Baker (incorporated herein by reference to Exhibit 10.23 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).
10.23#	Employment Agreement, dated August 3, 2021, by and between IG UK and Carys Damon (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 5, 2021).
10.24#	Letter Agreement, dated March 30, 2020, between Inspired Entertainment, Inc. and Carys Damon (incorporated herein by reference to Exhibit 10.25 to the Annual Report on Form 10-K of the Company, filed with the SEC on March 30, 2020).
10.25#	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).
10.26#	Non-Employee Director Compensation Policy (updated effective January 1, 2019) (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Company, filed with the SEC on February 11, 2019).
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*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Schema
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Label Linkbase
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase

Indicates management contract or compensatory plan.

* Filed herewith.

** Furnished herewith.

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: March 31, 2022

By: /s/ A. Lorne Weil

A. Lorne 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.

Date: March 31, 2022

/s/ A. Lorne Weil

A. Lorne Weil, Executive Chairman

Date: March 31, 2022

/s/ Andrew C. Stone

Andrew C. Stone,
Interim Principal Financial and Accounting Officer

Date: March 31, 2022

/s/ Michael R. Chambrello

Michael R. Chambrello, Director

Date: March 31, 2022

/s/ Ira H. Raphaelson

Ira H. Raphaelson, Director

Date: March 31, 2022

/s/ Desirée G. Rogers

Desirée G. Rogers, Director

Date: March 31, 2022

/s/ Steven M. Saferin

Steven M. Saferin, Director

Date: March 31, 2022

/s/ Katja Tautscher

Katja Tautscher, Director

Date: March 31, 2022

/s/ John M. Vandemore

John M. Vandemore, Director