UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

For the transition period from __________ to __________

Commission File Number: 001-36689

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

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

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒
	Emerging growth company ☒

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

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

As of May 8, 2018, there were 21,484,707 shares of the Company's common stock issued and outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2018	September 30, 2017
	(Unaudited)	
Assets		
Current assets		
Cash	$ 13,419	$ 20,028
Accounts receivable, net	14,491	20,469
Inventory, net	6,107	5,011
Prepaid expenses and other current assets	19,464	17,692
Total current assets	53,481	63,200
Property and equipment, net	44,786	43,485
Software development costs, net	48,340	46,433
Other acquired intangible assets subject to amortization, net	7,905	9,240
Goodwill	49,225	47,076
Other assets	9,007	9,589
Total assets	$ 212,744	$ 219,023
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 19,099	$ 20,407
Accrued expenses	13,476	18,119
Earnout liability	8,317	—
Corporate tax and other current taxes payable	1,392	3,134
Deferred revenue, current	9,671	7,209
Other current liabilities	4,682	4,420
Current portion of long-term debt	17,261	7,369
Current portion of capital lease obligations	527	562
Total current liabilities	74,425	61,220
Long-term debt	116,436	115,396
Capital lease obligations, net of current portion	276	532
Deferred revenue, net of current portion	22,160	20,144
Earnout liability, net of current portion	—	16,728
Derivative liability	—	964
Other long-term liabilities	4,688	6,368
Total liabilities	217,985	221,352
Commitments and contingencies		
Stockholders' deficit		
Preferred stock; $0.0001 par value; 1,000,000 shares authorized	—	—
Series A Junior Participating Preferred stock; $0.0001 par value; 1,000,000 shares authorized; 49,000 shares designated; no shares issued and outstanding at March 31, 2018 and September 30, 2017	—	—
Common stock; $0.0001 par value; 49,000,000 shares authorized; 20,860,591 shares and 20,402,602 shares issued and outstanding at March 31, 2018 and September 30, 2017, respectively	2	2
Additional paid in capital	325,492	323,429
Accumulated other comprehensive income	52,823	53,145
Accumulated deficit	(383,558)	(378,905)
Total stockholders' deficit	(5,241)	(2,329)
Total liabilities and stockholders' deficit	$ 212,744	$ 219,023

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

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Revenue:				
Service	$ 33,233	$ 25,396	$ 63,600	$ 50,640
Hardware	4,220	2,664	5,240	4,457
Total revenue	37,453	28,060	68,840	55,097
Cost of sales, excluding depreciation and amortization:				
Cost of service	(6,017)	(3,232)	(11,213)	(6,980)
Cost of hardware	(4,067)	(2,451)	(4,973)	(3,612)
Selling, general and administrative expenses	(15,622)	(14,404)	(31,996)	(28,135)
Stock-based compensation expense	(1,251)	(1,291)	(4,449)	(1,327)
Acquisition related transaction expenses	(228)	(813)	(802)	(11,273)
Depreciation and amortization	(11,120)	(8,004)	(20,680)	(15,172)
Net operating loss	(852)	(2,135)	(5,273)	(11,402)
Other income (expense)				
Interest income	93	—	131	12
Interest expense	(5,162)	(4,542)	(10,068)	(18,965)
Change in fair value of earnout liability	3,754	(2,155)	8,411	(879)
Change in fair value of derivative liability	1,553	(203)	1,872	(79)
Other finance income (costs)	199	(53)	390	(107)
Total other income (expense), net	437	(6,953)	736	(20,018)
Net loss before income taxes	(415)	(9,088)	(4,537)	(31,420)
Income tax expense	(83)	(32)	(116)	(83)
Net loss	(498)	(9,120)	(4,653)	(31,503)
Other comprehensive income (loss):				
Foreign currency translation gain	298	649	422	18,134
Actuarial gains (losses) on pension plan	1,302	(1,867)	(744)	(3,123)
Other comprehensive income/(loss)	1,600	(1,218)	(322)	15,011
Comprehensive income (loss)	$ 1,102	$ (10,338)	$ (4,975)	$ (16,492)
Net loss per common share – basic and diluted	$ (0.02)	$ (0.45)	$ (0.23)	$ (1.94)
Weighted average number of shares outstanding during the period – basic and diluted	20,855,124	20,378,002	20,647,336	16,266,916

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

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

	Common stock		Additional paid in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance at October 1, 2017	20,402,602	$ 2	$ 323,429	$ 53,145	$ (378,905)	$ (2,329)
Foreign currency translation adjustments	—	—	—	422	—	422
Actuarial gains (losses) on pension plan	—	—	—	(744)	—	(744)
Shares issued on exercise of warrants	50	—	1	—	—	1
Shares issued upon net settlement of RSUs and RSAs	457,939	—	(1,043)	—	—	(1,043)
Stock-based compensation expense	—	—	1,739	—	—	1,739
Reclassification of RSUs from derivative liability due to stockholder approval of Second Incentive Plan	—	—	2,848	—	—	2,848
Reclassification of RSUs to derivative liability due to modification	—	—	(1,482)	—	—	(1,482)
Net loss	—	—	—	—	(4,653)	(4,653)
Balance at March 31, 2018	20,860,591	$ 2	$ 325,492	$ 52,823	$ (383,558)	$ (5,241)

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

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

	Six Months Ended March 31,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (4,653)	$ (31,503)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,680	15,172
Stock-based compensation expense	4,140	1,327
Change in fair value of derivative liability	(1,872)	79
Change in fair value of earnout liability	(8,411)	879
Non-cash interest expense relating to senior debt	3,881	—
Non-cash interest expense relating to PIK loan notes	—	9,762
Changes in assets and liabilities:		
Accounts receivable	6,689	(5,865)
Inventory	(873)	679
Prepaid expenses and other assets	(62)	(432)
Corporate tax and other current taxes payable	(2,639)	(1,474)
Accounts payable	(6,048)	2,363
Other current liabilities	90	(11)
Deferred revenues and customer prepayment	3,579	(486)
Accrued expenses	(5,197)	(1,295)
Other long-term liabilities	(2,744)	(1,496)
Net cash provided by (used in) operating activities	6,560	(12,301)
Cash flows from investing activities:		
Purchases of property and equipment	(5,008)	(9,092)
Purchases of capital software	(8,926)	(11,248)
Net cash used in investing activities	(13,934)	(20,340)
Cash flows from financing activities:		
Proceeds from issuance of revolver and long-term debt	9,290	4,039
Cash received in connection with Merger	—	36,664
Proceeds from sale of common stock	—	1,645
Repayments of long-term debt	(7,713)	—
(Repayments of) proceeds from finance leases	(335)	517
Net cash provided by financing activities	1,242	42,865
Effect of exchange rate changes on cash	(477)	1,635
Net (decrease) increase in cash	(6,609)	11,859
Cash, beginning of period	20,028	1,486
Cash, end of period	$ 13,419	$ 13,345
Supplemental cash flow disclosures		
Cash paid during the period for interest	$ 6,395	$ 5,604
Cash paid during the period for income taxes	$ 7	$ 47
Supplemental disclosure of noncash investing and financing activities		
Additional paid in capital from net settlement of RSUs	$ (1,043)	$ —
Additional paid in capital reclassified to derivative liability	$ (1,482)	$ —
Additional paid in capital reclassified from derivative liability	$ 2,848	
Derivative liability reclassified to accrued expenses	$ 126	$ —
Fair value adjustment of PIK shareholder loans	$ —	$ 174,990

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

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

Company Description and Nature of Operations

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

The Company was formed in Delaware on May 30, 2014 under the name Hydra Industries Acquisition Corp. as a "blank check company" for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, recapitalization or other similar business transaction, one or more operating businesses or assets. On December 23, 2016 (the "Closing Date"), the Company consummated a business combination by acquiring Inspired Gaming Group pursuant to a share sale agreement dated as of July 13, 2016 (the "Sale Agreement"), by and among the Company and those persons identified on Schedule 1 to the Sale Agreement, including DMWSL 633 Limited. Pursuant to the Sale Agreement, the Company acquired all of the outstanding equity and shareholder loan notes of Inspired Gaming Group. We refer to such acquisition and to the other transactions contemplated by the Sale Agreement, collectively, as the "Business Combination" or the "Merger."

Management Liquidity Plans

As of March 31, 2018, the Company's cash on hand was $13,419 and the Company had a working capital deficit of $20,944. As of March 31, 2018, $6,355 of our $13,419 of cash on hand had arisen in Greece and was being held there in our Greek accounts. In the ordinary course of business, we seek, from time to time, to transfer funds earned in Greece to our accounts outside of Greece. However, Greece imposes capital controls that complicate, and can delay or prevent, the flow of capital out of that country. The Company recorded net losses of $4,653 and $31,503 for the six months ended March 31, 2018 and 2017, respectively. The net losses arose principally due to acquisition related expenses, interest on shareholder loan notes in the prior year, which are no longer a liability of the Company following the Merger, and non-cash items, including stock-based compensation. Historically, annually 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. The working capital deficit of $20,944 includes non-cash settled items of $8,317 for the earnout liability and $9,671 of deferred income. Management currently believes that the Company's cash balances on hand, cash flows expected to be generated from operations, ability to control and defer capital projects and borrowings available under the Company's credit facilities will be sufficient to fund the Company's net cash requirements through May 2019.

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the periods ended September 30, 2017, September 24, 2016 and September 26, 2015. The financial information as of September 30, 2017 is derived from the audited consolidated financial statements presented in the Company's Annual Report on Form 10-K filed with the SEC on December 4, 2017. The interim results for the three and six months ended March 31, 2018 are not necessarily indicative of the results to be expected for the year ending September 30, 2018 or for any future interim periods.

The Company changed its reporting year end from a 52-week period ending on the last Saturday in September to a September 30 year end, commencing with the year ended September 30, 2017. Accordingly, the six-month period ended March 31, 2017 includes the results of operations for the Company for the period from September 25, 2016 through March 31, 2017.

Principles of Consolidation

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

Foreign Currency Translation

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

Use of Estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates these estimates, including those related to the revenue recognition for contracts involving software and non-software elements, allowance for doubtful accounts, inventory reserve for net realizable value, goodwill and intangible assets, useful lives of long-lived assets, stock-based compensation, valuation allowances on deferred taxes, earnout liability, derivative liabilities, 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.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 (ASC 606), "Revenue from Contracts with Customers," which was subsequently modified in August 2015 by ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" ("ASU 2014-09"). As a result, ASU No. 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Company will adopt the standard on October 1, 2019, which may result in a cumulative-effect adjustment for deferred revenue to the opening balance sheet for 2017 and the restatement of the financial statements for all prior periods presented. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements. In 2016 and 2017, the FASB issued additional ASUs that clarify the implementation guidance on principal versus agent considerations (ASU 2016-08), on identifying performance obligations and licensing (ASU 2016-10), and on narrow-scope improvements and practical expedients (ASU 2016-12), as well as on the revenue recognition criteria and other technical corrections (ASU 2016-20, ASU 2017-13 and ASU 2017-14).

(in thousands, except share and per share data)

2. Accounts Receivable

Accounts receivable consist of the following:

	March 31, 2018	September 30, 2017
Trade receivables	$ 19,587	$ 25,527
Less: long-term receivable recorded in other assets	(2,659)	(3,235)
Other receivables	118	135
Allowance for doubtful accounts	(2,555)	(1,958)
Total accounts receivable, net	$ 14,491	$ 20,469

3. Inventory

Inventory consists of the following:

	March 31, 2018	September 30, 2017
Component parts	$ 5,323	$ 4,100
Finished goods	784	911
Total inventories	$ 6,107	$ 5,011

Component parts include parts for gaming terminals. Included in component parts are reserves for excess and slow-moving inventory of $503 and $419 as of March 31, 2018 and September 30, 2017, respectively. Our finished goods inventory primarily consists of gaming terminals which are ready for sale.

4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following:

	March 31, 2018	September 30, 2017
Prepaid expenses and other assets	$ 6,057	$ 8,150
Unbilled accounts receivable	13,407	9,542
Total prepaid expenses and other assets	$ 19,464	$ 17,692

5. Property and Equipment, net

	March 31, 2018	September 30, 2017
Short-term leasehold property	$ 388	$ 371
Video lottery terminals	117,275	105,525
Computer equipment	8,975	8,428
Plant and machinery	3,503	3,358
	130,141	117,682
Less: accumulated depreciation and amortization	(85,355)	(74,197)
	$ 44,786	$ 43,485

(in thousands, except share and per share data)

Depreciation and amortization expense amounted to $5,266 and $4,519 for the three months ended March 31, 2018 and 2017, respectively, and $10,058 and $9,157 for the six months ended March 31, 2018 and 2017, respectively.

6. Software Development Costs, net

Software development costs, net consisted of the following:

	March 31, 2018	September 30, 2017
Software development costs	$ 103,141	$ 89,468
Less: accumulated amortization	(54,801)	(43,035)
	$ 48,340	$ 46,433

During the three and six months ended March 31, 2018, the Company capitalized $4,337 and $8,680 of software development costs, respectively. Amounts in the above table include $1,487 and $2,676 of internal use software at March 31, 2018 and September 30, 2017, respectively.

The total amount of software costs amortized was $4,635 and $2,444 for the three months ended March 31, 2018 and 2017, respectively, and $8,561 and $4,193 for the six months ended March 31, 2018 and 2017, respectively. Software costs written down to net realizable value amounted to $342 for the three and six months ended March 31, 2018 and $263 for the three and six months ended March 31, 2017. The weighted average amortization period was 3.2 years for the three and six months ended March 31, 2018.

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

Year ending September 30,	
2018 (six months)	$ 9,049
2019	16,237
2020	12,215
2021	7,446
2022	2,316
2023	1,077
Total	$ 48,340

7. Intangible Assets and Goodwill

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

	March 31, 2018	September 30, 2017
Trademarks	$ 18,947	$ 18,119
Customer relationships	16,192	15,485
	35,139	33,604
Less: accumulated amortization	(27,234)	(24,364)
	$ 7,905	$ 9,240

(in thousands, except share and per share data)

Aggregate intangible asset amortization expense amounted to $877 and $777 for the three months ended March 31, 2018 and 2017, respectively, and $1,719 and $1,558 for the six months ended March 31, 2018 and 2017, respectively.

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

Year ending September 30,		
2018 (six months)	$	1,757
2019		3,514
2020		2,634
Total	$	7,905

Goodwill

The difference in the carrying amount of goodwill at March 31, 2018 and September 30, 2017 (amounting to $2,149), as reported in the accompanying unaudited interim condensed consolidated balance sheets, is attributable to foreign currency translation adjustments.

8. Accrued Expenses

Accrued expenses consist of the following:

		March 31, 2018		**September 30, 2017**
Direct costs of sales	$	2,908	$	6,038
Accrued corporate cost expenses		2,330		2,257
Interest payable - cash		3,700		4,116
Interest payable – payment in kind		692		664
Asset retirement obligations		46		40
Other creditors		3,800		5,004
	$	13,476	$	18,119

9. Other Liabilities

Other liabilities consist of the following:

		March 31, 2018		**September 30, 2017**
Customer prepayments and deposits	$	4,517	$	4,346
Foreign exchange contract liabilities		165		74
Total other liabilities, current		4,682		4,420
Other payables, net of current portion		1,356		2,079
Asset retirement obligations		914		866
Pension liability		2,418		3,423
Total other liabilities, long-term		4,688		6,368
	$	9,370	$	10,788

(in thousands, except share and per share data)

10. Long Term and Other Debt

Outstanding Debt and Capital Leases

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

	March 31, 2018	September 30, 2017
Senior bank debt	$ 133,697	$ 122,765
Capital leases and hire purchase contract	803	1,094
Total long-term debt outstanding	134,500	123,859
Less: current portion of long-term debt	(17,788)	(7,931)
Long-term debt, excluding current portion	$ 116,712	$ 115,928

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 for the years ending September 30 matures as follows:

Fiscal period	Senior bank debt	Capital leases and hire purchase contract	Total
2018 (six months)	$ 17,261	$ 253	$ 17,514
2019	116,436	480	116,916
2020	—	70	70
Total	$ 133,697	$ 803	$ 134,500

11. 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.

(in thousands, except share and per share data)

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

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

	Level		March 31, 2018		September 30, 2017
Earnout liability (see Note 12)	3	$	8,317	$	16,728
Derivative liability (see Note 13)	2	$	—	$	964
Long term receivable (included in other assets)	2	$	2,659		3,235
Foreign exchange contract liability (included in other current liabilities)	2	$	165	$	74

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

Level 3 financial liabilities consist of the earnout liability for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate (see Note 12).

At March 31, 2018 and September 30, 2017, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

12. Earnout Liability

An earnout payment of up to 2,500,000 shares of the Company's common stock, subject to certain customary anti-dilution adjustments (the "Earnout Consideration") shall be paid to the previous owners of Inspired Gaming Group (the "Selling Group") and will be determined based on the financial performance of the Company's businesses in six specific countries, China, Colombia, Greece, Norway, Spain and Ukraine (collectively, the "Earnout Jurisdictions"), as measured by earnings before interest, taxes, depreciation and amortization ("EBITDA") for the twelve months ending September 30, 2018 (the "Earnout Period"). If such EBITDA is equal to or greater than £15,000 ($21,017), the Selling Group will receive an aggregate of 2,500,000 shares of common stock. If such EBITDA is less than £15,000 ($21,017), the Selling Group will receive the number of shares equal to the product of (x) 2,500,000 and (y) a fraction, the numerator of which is such EBITDA and the denominator of which is £15,000 ($21,017).

In accordance with ASC 815, "Derivatives and Hedging" ("ASC 815"), the earnout shares are not considered indexed to the Company's own stock and therefore are accounted for as a liability with fair value changes being recorded in the condensed consolidated statements of operations and comprehensive loss. The fair value of the Earnout Consideration is calculated using a Monte Carlo simulation to estimate the variance and relative risk of achieving future EBITDA during the Earnout Period in the Earnout Jurisdictions. This model is a discrete-time model that allows for sources of uncertainty, simulates the movements of the underlying metric and calculates the resulting derivative value for each trial. Such simulations are performed for a number of trials and the average value across all trials is determined in order to arrive at the concluded value of such derivative. The Earnout Consideration was valued at $8,317 and $16,728 at March 31, 2018 and September 30, 2017, respectively.

(in thousands, except share and per share data)

The key assumptions in applying the Monte Carlo simulation include the Company's stock price, the Earnout Period EBITDA in the Earnout Jurisdictions for the period ending September 30, 2018, a risk-adjusted discount rate of 13.5% as of March 31, 2018, a standard deviation of 48.4% as of March 31, 2018 (based on the expected standard deviation of the Earnout Period EBITDA), a normal distribution of Earnout Period EBITDA and a Monte Carlo simulation run 100,000 times.

Significant increases or decreases to any of these inputs in isolation would result in a significantly higher or lower liability, with a higher liability capped by the contractual maximum Earnout Consideration obligation (a maximum of 2,500,000 shares). Ultimately, the liability will be equivalent to the amount paid in shares, and the difference between the fair value estimate and amount paid will be recorded in earnings.

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

Balance – September 30, 2017	$	16,728
Change in fair value of earnout liability		(8,411)
Balance – March 31, 2018	$	8,317

13. Derivative Liability

The Company's Second Long-Term Incentive Plan (the "Second Incentive Plan") was adopted by the Company's Board of Directors in December 2016 subject to approval by the Company's stockholders, which was obtained in March 2018. Awards granted under the Second Incentive Plan prior to approval by stockholders were classified as a derivative liability due to the Company's obligation to settle such awards in cash in the event stockholders did not approve the plan. Such obligation was eliminated upon stockholder approval being obtained, which resulted in the liability being reclassified to additional paid in capital at the fair value amount of $2,848.

14. Stock-Based Compensation

The Company's stock-based compensation plans authorize awards of restricted stock units, stock options and other equity awards. As of March 31, 2018, there were 2,289,881 shares subject to outstanding awards and 1,226,606 shares remaining available for future awards.

On January 2, 2018, the Company granted 27,000 RSUs under the 2016 Incentive Plan to members of the Company's Board of Directors. One-quarter of the RSUs vested on the date of grant, with the remaining RSUs vesting quarterly on April 1, 2018, July 1, 2018 and October 1, 2018. The weighted average fair value of the awards on the date of grant was $9.70 per share. The grant date fair value of the awards is being recognized as compensation expense over the vesting period. The aggregate grant date fair value of the RSUs amounted to $262, of which the Company recorded $83 as compensation expense during the period ended March 31, 2018.

Stock-based compensation is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The modification of certain awards held by two executive officers of the Company in December 2017 resulted in $2,105 of incremental compensation cost being recognized as of the modification date.

(in thousands, except share and per share data)

The company recognized stock-based compensation expense as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Restricted Stock and Restricted Stock Units	$ 1,251	$ 1,291	$ 2,034	$ 1,327
Modification of awards	—	—	2,105	—
Payroll taxes on vesting of Restricted Stock Units	—	—	310	—
	$ 1,251	$ 1,291	$ 4,449	$ 1,327

15. Accumulated Other Comprehensive Loss (Income)

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

	Foreign Currency Translation Adjustments	Unrecognized pension benefit costs	Accumulated Other Comprehensive Loss (Income)
Balance at September 30, 2017	$ (78,668)	$ 25,523	$ (53,145)
Change during the period	(422)	744	322
Balance at March 31, 2018	$ (79,090)	$ 26,267	$ (52,823)

16. 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 of shares of common stock outstanding during the period, including stock options, restricted stock and warrants, using the treasury stock method, and convertible debt or convertible preferred stock, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

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

	Three and Six Months Ended March 31,	
	2018	2017
Earnout Shares	2,500,000	2,500,000
Restricted Stock Units	1,665,765	722,466
Unvested Restricted Stock	624,116	2,041,067
Stock Warrants	9,539,565	9,539,615
	14,329,446	14,803,148

17. Income Taxes

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

(in thousands, except share and per share data)

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

The effective income tax rate for the three months ended March 31, 2018 and 2017 was (20.0%) and (0.4%), respectively, resulting in an $83 and $32 income tax expense, respectively. The effective income tax rate for the six months ended March 31, 2018 and 2017 was (2.6%) and (0.3%), respectively, resulting in a $116 and $83 income tax expense, respectively. The income tax expense for the three and six months ended March 31, 2018 differs from the amount that would be expected after applying the statutory U.S. federal income tax rate primarily due to the impact of the U.S. statutory tax rate change on deferred tax assets and liabilities, changes in the valuation allowance for deferred taxes and the net losses generated by the Company's non-US foreign subsidiaries. The income tax expense for the three and six months ended March 31, 2017 differs from the amount that would be expected after applying the statutory U.S. federal income tax rate primarily due to the changes in the valuation allowance for deferred taxes and the net losses generated by the Company's non-US foreign subsidiaries.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the consideration of these items, management determined that it is more likely than not that the Company will not realize the deferred income tax asset balances and therefore, recorded a full valuation allowance of $50,830 as of March 31, 2018.

The utilization of the Company's pre-Merger net operating losses may be subject to a substantial limitation due to the "change of ownership provisions" under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of some or all of the net operating loss carryforwards before their utilization.

18. Related Parties

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

		Three Months Ended March 31,		Six Months Ended March 31,	
		2018	2017	2018	2017
Hydra Management LLC	Selling, general and administrative expenses	$ (14)	$ (54)	$ (100)	$ (54)

We incurred certain offering expenses in connection with an underwritten public offering of shares principally held by our largest stockholder, Landgame S.à.r.l, which closed in January 2018 as to which our expenses were reimbursed by the selling stockholders. For the three and six months ended March 31, 2018, the aggregate amount invoiced for reimbursement was $479 and $650, respectively.

We paid consulting fees to an entity owned by Jim O'Halleran, who was a director of Inspired prior to the Business Combination. For the three and six months ended March 31, 2017, the fees totaled $196 and $294, respectively. The agreement terminated in November 2017.

(in thousands, except share and per share data)

An affiliate of Landgame S.à.r.l has had an ownership interest in one of our customers. For the three and six months ended March 31, 2017, we received contract revenues totaling $365 and $797, respectively. We also had an accounts receivable balance with respect to such customer in the amount of $633 as of September 30, 2017, which was no longer outstanding as of March 31, 2018.

19. Commitments and Contingencies

Legal Matters

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

As previously disclosed, on June 30, 2017, Martin E. Schloss, the former Executive Vice President, General Counsel and Secretary of the Company, filed a lawsuit in the Supreme Court of the State of New York, County of New York, naming as defendants the Company and A. Lorne Weil, seeking damages as a result of his services not continuing beyond the Business Combination. In March 2018, this matter was settled by the parties.

20. Pension Plan

We operate a scheme which is comprised of a separately managed defined benefit section and a defined contribution section. The defined benefit section is closed to future accruals for services rendered to the Company. We estimate that $3,388 will be contributed to the pension plan during the year ending September 30, 2018.

The total amount of employer contributions paid during the six months ended March 31, 2018 amounted to $1,775. We expect to contribute $1,613 during the remaining part of the fiscal period.

For the six months ended March 31, 2018 and 2017, the components of total periodic benefit costs were as follows:

	Six Months Ended March 31, 2018	Six Months Ended March 31, 2017
Components of net periodic (benefit)/cost:		
Service cost	$ —	$ —
Interest cost	1,482	1,624
Expected return on plan assets	(1,872)	(1,518)
Net periodic (benefit)/cost	$ (390)	$ 106

21. Segment Reporting and Geographic Information

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

The following tables present revenue, cost of sales, excluding depreciation and amortization, selling, general and administrative expenses, depreciation and amortization, stock-based compensation expense and acquisition related transaction expenses, operating profit/(loss), total assets and total capital expenditures for the three and six months ended March 31, 2018, respectively, by business segment. Certain unallocated corporate function costs have not been allocated to the Company's reportable operating segments because these costs are not allocable and to do so would not be practical. Corporate function costs consist primarily of selling, general and administrative expenses, depreciation and amortization, capital expenditures, cash, prepaid expenses and property and equipment and software development costs relating to corporate/shared functions.

(in thousands, except share and per share data)

Segment Information

Three Months Ended March 31, 2018

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
Revenue:				
Service	$ 23,573	$ 9,660	$ —	$ 33,233
Hardware	4,220	—	—	4,220
Total revenue	27,793	9,660	—	37,453
Cost of sales, excluding depreciation and amortization:				
Cost of service	(4,698)	(1,319)	—	(6,017)
Cost of hardware	(4,067)	—	—	(4,067)
Selling, general and administrative expenses	(4,038)	(1,972)	(9,612)	(15,622)
Stock-based compensation expense	(65)	(79)	(1,107)	(1,251)
Acquisition related transaction expenses	—	—	(228)	(228)
Depreciation and amortization	(8,729)	(2,048)	(343)	(11,120)
Segment operating income (loss)	6,196	4,242	(11,290)	(852)
Net operating loss				(852)
Total assets at March 31, 2018	$ 116,215	$ 76,233	$ 20,296	$ 212,744
Total goodwill at March 31, 2018	$ —	$ 49,225	$ —	$ 49,225
Total capital expenditures for the three months ended March 31, 2018	$ 8,820	$ 1,450	$ 89	$ 10,359

Three Months Ended March 31, 2017

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
Revenue:				
Service	$ 16,933	$ 8,463	$ —	$ 25,396
Hardware	2,664	—	—	2,664
Total revenue	19,597	8,463	—	$ 28,060
Cost of sales, excluding depreciation and amortization:				
Cost of service	(2,595)	(637)	—	(3,232)
Cost of hardware	(2,451)	—	—	(2,451)
Selling, general and administrative expenses	(3,826)	(1,454)	(9,124)	(14,404)
Stock-based compensation expense	(64)	(78)	(1,149)	(1,291)
Acquisition related transaction expenses	—	—	(813)	(813)
Depreciation and amortization	(5,940)	(1,555)	(509)	(8,004)
Segment operating income (loss)	4,721	4,739	(11,595)	(2,135)
Net operating loss				(2,135)
Total assets at September 30, 2017	$ 113,692	$ 75,975	$ 29,356	$ 219,023
Total goodwill at September 30, 2017	$ —	$ 47,076	$ —	$ 47,076
Total capital expenditures for the three months ended March 31, 2017	$ 6,947	$ 1,565	$ 1,250	$ 9,762

(in thousands, except share and per share data)

Six Months Ended March 31, 2018

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
Revenue:				
Service	$ 45,382	$ 18,218	$ —	$ 63,600
Hardware	5,240	—	—	5,240
Total revenue	50,622	18,218	—	68,840
Cost of sales, excluding depreciation and amortization:				
Cost of service	(8,751)	(2,462)	—	(11,213)
Cost of hardware	(4,973)	—	—	(4,973)
Selling, general and administrative expenses	(7,987)	(3,884)	(20,125)	(31,996)
Stock-based compensation expense	(137)	(166)	(4,146)	(4,449)
Acquisition related transaction expenses	—	—	(802)	(802)
Depreciation and amortization	(16,336)	(3,648)	(696)	(20,680)
Segment operating income (loss)	12,438	8,058	(25,769)	(5,273)
Net operating loss				(5,273)
Total capital expenditures for the six months ended March 31, 2018	$ 15,806	$ 2,771	$ 202	$ 18,779

Six Months Ended March 31, 2017

	Server Based Gaming	Virtual Sports	Corporate Functions	Total
Revenue:				
Service	$ 35,154	$ 15,486	$ —	$ 50,640
Hardware	4,457	—	—	4,457
Total revenue	39,611	15,486	—	$ 55,097
Cost of sales, excluding depreciation and amortization:				
Cost of service	(5,491)	(1,489)	—	(6,980)
Cost of hardware	(3,612)	—	—	(3,612)
Selling, general and administrative expenses	(7,650)	(3,250)	(17,235)	(28,135)
Stock-based compensation expense	(64)	(78)	(1,185)	(1,327)
Acquisition related transaction expenses	—	—	(11,273)	(11,273)
Depreciation and amortization	(11,593)	(2,623)	(956)	(15,172)
Segment operating income (loss)	11,201	8,046	(30,649)	(11,402)
Net operating loss				(11,402)
Total capital expenditures for the six months ended March 31, 2017	$ 11,921	$ 3,242	$ 1,744	$ 16,907

(in thousands, except share and per share data)

Geographic Information

Geographic information for revenue is set forth below:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Total revenue				
UK	$ 24,644	$ 19,916	$ 45,137	$ 39,069
Italy	4,705	4,075	9,005	8,450
Greece	5,443	649	9,834	649
Rest of world	2,661	3,420	4,864	6,929
Total	$ 37,453	$ 28,060	$ 68,840	$ 55,097

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

	March 31, 2018	September 30, 2017
Total non-current assets excluding goodwill		
UK	$ 67,538	$ 68,069
Italy	4,495	5,761
Greece	27,253	20,728
Rest of world	10,752	14,189
Total	$ 110,038	$ 108,747

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

22. Customer Concentration

During the three months ended March 31, 2018, three customers represented at least 10% of revenues, accounting for 23%, 19% and 15% of the Company’s revenues. During the three months ended March 31, 2017, two customers represented at least 10% of revenues, accounting for 27% and 13% of the Company’s revenues. All these customers were served by both the Server Based Gaming and Virtual Sports segments.

During the six months ended March 31, 2018, three customers represented at least 10% of revenues, accounting for 25%, 15% and 14% of the Company’s revenues. During the six months ended March 31, 2017, two customers represented at least 10% of revenues, accounting for 29% and 12% of the Company’s revenues. All these customers were served by both the Server Based Gaming and Virtual Sports segments.

At March 31, 2018, two customers represented at least 10% of accounts receivable, accounting for 16% and 13% of the Company's accounts receivable. At September 30, 2017, two customers accounted for 26% and 13% of the Company's accounts receivable.

23. 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.

On May 2, 2018, the Company announced that it has formed the Office of Executive Chairman, which consists of Executive Chairman A. Lorne Weil; President and Chief Operating Officer Brooks H. Pierce; Executive Vice President and Chief Strategy Officer Daniel B. Silvers and Executive Vice President and Chief Financial Officer Stewart F.B. Baker. The Office of the Executive Chairman will execute the day-today management of the Company.

In connection with the formation of the Office of Executive Chairman, on May 1, 2018 Mr. Pierce was appointed President and Chief Operating Officer of the Company and Mr. Baker, the Company's Chief Financial Officer, was appointed to the new position of Executive Vice President and Chief Financial Officer. Mr. Pierce, 56, has over 25 years of experience in the gaming industry. He joined the Company as Senior Vice President, North America, earlier this year. Prior to joining the Company, Mr. Pierce held the position of Chief Executive Officer of BHP Consulting Group, LLC ("BHP"), a sales, marketing and leadership consulting firm that provided consulting services to the Company from May 2017 through March 2018, during which time BHP received $10,000 per month in fees as well as reimbursement of certain expenses. The Company and Mr. Pierce have entered into an employment agreement setting forth the terms and conditions of Mr. Pierce's employment, including an annual base salary of $400,000; an annual bonus opportunity of from 100% (target) to 200% (maximum) of his base salary, subject to the Company meeting specified performance targets and he himself meeting specified individual performance targets. In addition, Mr. Pierce has been awarded 100,000 restricted stock units under the Company's Second Incentive Plan.

On May 2, 2018, the Company also announced that Luke L. Alvarez, President and Chief Executive Officer, was departing the Company and its affiliates, under terms being finalized. Mr. Alvarez's previous responsibilities will be divided among the members of the Office of Executive Chairman.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this document.

Forward-Looking Statements

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

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

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

- our ability to compete effectively in our industries;
- the effect of evolving technology on our business;
- our ability to renew long-term contracts and retain customers, and secure new contracts and customers;
- our ability to maintain relationships with suppliers;
- our ability to protect our intellectual property;
- government regulation of our industries;
- the outcome of the UK Government's ongoing triennial review of UK gaming regulation;
- our ability to successfully grow by acquisition as well as organically;
- our ability to attract and retain key members of our management team;
- our need for working capital;
- our ability to secure capital for growth and expansion;
- changing consumer, technology and other trends in our industries;

- our ability to successfully operate across multiple jurisdictions and markets around the world;
- changes in local, regional and global economic and political conditions; and
- other factors.

Overview

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

Our key strategic priorities are to:

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

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

Business Segments

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

Our Virtual Sports business segment designs, develops, markets and distributes ultra-high-definition games that create an always-on sports wagering experience. Our Virtual Sports customers include virtual sports retail and digital operators, including regulated betting operators, lotteries, casinos, online operators and other gaming and lottery operators in the UK, continental Europe, Asia, Africa and North America.

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

Geographic Range

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

For the three months ended March 31, 2018, we earned approximately 65.8% of our revenue in the UK, 14.6% in Greece, 12.5% in Italy and the remaining 7.1% across the rest of the world. During the three months ended March 31, 2017, the percentages were 71.0%, 2.7%, 14.5% and 11.8%, respectively. For the six months ended March 31, 2018, we earned approximately 65.6% of our revenue in the UK, 14.3% in Greece, 13.1% in Italy and the remaining 7.1% across the rest of the world. During the six months ended March 31, 2017, the percentages were 70.8%, 2.4%, 15.3% and 11.5%, respectively.

Foreign Exchange

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

During the three months ended March 31, 2018, we derived approximately 34.2% of our revenue from sales to customers outside of the UK, compared to 29.0% during the three months ended March 31, 2017. During the six months ended March 31, 2018, we derived approximately 34.4% of our revenue from sales to customers outside of the UK compared to 29.1% during the six months ended March 31, 2017.

In the section "Results of Operations" below, currency impacts shown have been calculated as the current-period average GBP: USD rate less the equivalent average rate in the prior period, multiplied by the current period amount in our functional currency (GBP). The remaining difference, referred to as constant currency, is calculated as the difference in our functional currency, multiplied by the prior-period average GBP: USD rate, as a proxy for constant currency movement. 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" later in this Item 2.

Results of Operations

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

- a discussion and analysis of the Company's results of operations for the three-month period ended March 31, 2018, compared to the same period in 2017;

- a discussion and analysis of the results of operations of our SBG and Virtual Sports business segments for the three-month period ended March 31, 2018, compared to the same period in 2017, including Key Performance Indicator ("KPI") analysis;

- a discussion and analysis of the Company's results of operations for the six-month period ended March 31, 2018, compared to the same period in 2017; and

- a discussion and analysis of the results of operations of our SBG and Virtual Sports business segments for the six-month period ended March 31, 2018, compared to the same period in 2017, including KPI analysis.

The three-month financial periods presented consist of a 90-day period for 2018 and 2017. The balance sheet date of each fiscal period is March 31. Each of the foregoing periods is herein referred to as a “three-month period.”

The six-month financial periods presented consist of a 182-day period for 2018 and a 188-day period for 2017. The balance sheet date of each fiscal period is March 31. Each of the foregoing periods is herein referred to as a “six-month period.”

Our results are affected by changes in foreign currency exchange rates, primarily between our functional currency (GBP) and our reporting currency (USD). In the three-month periods ended March 31, 2018 and 2017, the average USD: GBP rate was 1.40 and 1.24, respectively. In the six-month periods ended March 31, 2018 and 2017, the average USD: GBP rate was 1.37 and 1.24, respectively.

In the tables below, the “Days Movement” column represents values relating to the additional six days in the 2017 “six-month period” as compared to the 2018 “six-month period”. The “Days Movement” column allows for the comparisons shown in the additional “Like-for-Like Variance” columns. Such columns are not presented for the three months periods, as such periods in both years were 90 days. For line items in respect of which daily information was available for the additional days in 2017, specific adjustments were made. For line items in respect of which no such information was available, a straight-line method was used to provide pro-rated values. For certain line items, such as Stock-based compensation and Change in fair value of earnout liability, there were no values relating to the additional days in 2017.

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

Results of Operations –
Three Months ended March 31, 2018 compared to Three Months ended March 31, 2017

	For the Three-Month Period ended		Variance		Variance		
	Unaudited	Unaudited					
(In thousands)	**March 31, 2018**	**March 31, 2017**	**2018 vs 2017**		**Constant Currency**		**Currency Movement**
Revenue:							
Service	$ 33,233	$ 25,396	$ 7,837	30.9%	$ 4,030	15.9%	$ 3,806
Hardware	4,220	2,664	1,556	58.4%	1,082	40.6%	474
Total revenue	**37,453**	**28,060**	**9,393**	**33.5%**	**5,112**	**18.2%**	**4,280**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(6,017)	(3,232)	(2,785)	(86.2%)	(2,093)	(64.8%)	(692)
Cost of hardware	(4,067)	(2,451)	(1,616)	(65.9%)	(1,157)	(47.2%)	(459)
Selling, general and administrative expenses	(15,622)	(14,404)	(1,218)	(8.5%)	578	4.0%	(1,796)
Stock-based compensation	(1,251)	(1,291)	40	3.1%	180	14.0%	(140)
Acquisition related transaction expenses	(228)	(813)	585	72.0%	613	75.4%	(28)
Depreciation and amortization	(11,120)	(8,004)	(3,116)	(38.9%)	(1,842)	(23.0%)	(1,274)
Net operating loss	**(852)**	**(2,135)**	**1,283**	**60.1%**	**1,390**	**65.1%**	**(107)**
Other income (expense)							
Interest income	93	0	93	0.0%	82	0.0%	11
Interest expense	(5,162)	(4,542)	(620)	(13.6%)	(22)	(0.5%)	(597)
Change in fair value of earnout liability	3,754	(2,155)	5,909	274.2%	5,452	253.0%	457
Change in fair value of derivative liability	1,553	(203)	1,756	865.0%	1,578	777.5%	178
Other finance income (costs)	199	(53)	252	475.9%	229	432.8%	23
Total other income (expense), net	**437**	**(6,953)**	**7,390**	**106.3%**	**7,319**	**105.3%**	**71**
Net loss from continuing operations before income taxes	(415)	(9,088)	8,673	95.4%	8,709	95.8%	(36)
Income tax expense	(83)	(32)	(52)	(161.9%)	(42)	(131.8%)	(10)
Net loss	**($ 498)**	**($ 9,120)**	**$ 8,621**	**94.5%**	**$ 8,667**	**95.0%**	**($ 46)**
Exchange Rate - $ to £	*1.40*	*1.24*					

Revenue

Total revenue for the quarter ended March 31, 2018 increased by $9.4 million, or 33.5%, from the quarter ended March 31, 2017, to $37.5 million, on a reported basis. Favorable currency movements accounted for $4.3 million of the increase, meaning constant currency revenue increased by $5.1 million, or 18.2%.

SBG revenue, which is included in total revenue, above, increased by $5.0 million on a constant currency basis, or 25.5%, comprised of growth in service revenue of $3.9 million and in hardware sales of $1.1 million.

SBG service revenue increased by $3.9 million on a constant currency basis, or 23.2%, as a result of the continued rollout of terminals in Greece driving a $2.8 million increase and software license sales of $1.1 million into the Greek market.

Hardware revenue increase was driven by terminal sales of our new “Flex 4K” product of $3.2 million, offset by lower hardware sales in the UK (excluding the “Flex 4K” product), Greek, Colombian and the Electronic Table Gaming (“ETG”) markets of $1.2 million, $0.6 million, $0.3 million and $0.1 million, respectively.

Virtual Sports revenue increased by $0.1 million on a constant currency basis, or 1.0%, driven by new customer revenue from our mobile remote game server (“Mobile RGS”) product, continued growth in Greece and Poland and a new customer in Finland. Growth was negatively affected by a timing difference in the 2018 contract renewal of a major customer and by the recognition of 2017 revenues previously unreported to us, as well as by the timing of RGS content sales. Excluding these, Virtual Sports revenue increased by $1.6 million on a constant currency basis, or 24%.

Cost of sales, excluding depreciation and amortization

Cost of sales, excluding depreciation and amortization, which includes machine cost of sales, consumables, content royalties and connectivity costs, increased from the period ended March 31, 2017 by $4.4 million, or 77.4%, on a reported basis, to $10.1 million. Of this increase, $1.2 million arose from adverse currency movements. On a constant currency basis, cost of sales increased by $3.3 million, or 57.2%.

Cost of service increased by $2.1 million, or 64.8%, on a constant currency basis due to an increase in Greece SBG service costs of $1.0 million and $0.3 million from additional costs to service UK SBG terminals. $0.5 million of the increase was due to the additional cost of supporting new recurring contracts for Virtual Sports.

Cost of hardware increased by $1.2 million, or 47.2%, on a constant currency basis due to incremental hardware sales in the UK. Hardware sales are made at nil margin in certain circumstances to secure long-term revenue share contracts.

Selling, general and administrative expenses

Selling, general, and administrative ("SG&A") expenses include staff compensation costs (including outsourced costs), travel, professional services fees and technology expenses (including hosting fees, data centers and similar charges).

SG&A expenses increased by $1.2 million, or 8.5%, on a reported basis, to $15.6 million. Of this increase, $1.8 million arose from adverse currency movements. On a constant currency basis, SG&A expenses decreased by $0.6 million, or 4.0%, due to staff related cost savings.

Stock-based compensation

We have two stock-based compensation plans pursuant to which we issue awards of restricted stock units, stock options and other equity awards: the 2016 Long-Term Incentive Plan, which was approved by stockholders in December 2016 (the "First Incentive Plan"), and the Second Long-Term Incentive Plan, which was approved by stockholders in March 2018 (the "Second Incentive Plan").

The aggregate number of shares authorized for issuance under these plans is 4,078,818 and, as of March 31, 2018, there were 2,289,881 shares subject to outstanding awards. 562,331 shares have been awarded and issued as of March 31, 2018. Awards are fair-valued at the time of issuance, with the value being spread over the vesting period. During the 2018 period, the Company recorded an expense of $1.3 million in respect of outstanding awards, which was in line with the prior year charge for stock-based compensation.

Acquisition related transaction expenses

Acquisition related transaction expenses decreased by $0.6 million in the period, to $0.2 million, on a reported basis. All of the 2018 period expenses were related to work in respect of potential acquisitions. All of the prior period expenses were related to the Business Combination.

Depreciation and amortization

Depreciation and amortization increased by $3.1 million or 38.9%, to $11.1 million, on a reported basis. Of this increase, $1.3 million arose from adverse currency movements.

On a constant currency basis, depreciation and amortization increased by $1.8 million, or 23.0%. The constant currency increase was driven by a $1.7 million increase due to additional amortization accruing in connection with new platforms and games going live across SBG ($1.6 million) and Virtual Sports ($0.1 million).

Net operating loss

On a reported basis, net operating loss improved from a loss of $2.1 million in the 2017 period to a loss of $0.9 million in the 2018 period, of which $0.1 million arose from adverse currency movements. On a constant currency basis, net operating loss decreased by $1.4 million, due to an increase in revenue and a decrease in acquisition related expenses and SG&A. This was partly offset by an increase in cost of sales and depreciation and amortization.

Interest expense

Interest expense increased by $0.6 million, or 13.6%, in the quarter ended March 31, 2018, to $5.2 million, on a reported basis. This variance arose from adverse currency movements. On a constant currency basis, interest expense remained consistent with the quarter ended March 31, 2017. There were higher cash and PIK charges on the existing senior debt due to continued compounding of the PIK interest charge of $0.7 million and a small $0.1 million increase in the level of revolver interest paid. This was offset due to no amortization of debt fees in the current year. These fees had been fully amortized by the end of September 2017.

Change in fair value of earnout liability

Change in fair value of earnout liability relates to the potential earnout payment that may be made to the former owners of DMWSL 633 Limited, the amount of which is dependent upon the financial performance of Inspired's businesses in six specific countries (China, Colombia, Greece, Norway, Spain and Ukraine) (collectively, the "Earnout Jurisdictions"), as measured by earnings before interest, taxes, depreciation and amortization for the twelve months ending September 30, 2018 (the "Earnout Period"). As a result of changes in expectations relating to of the Earnout Jurisdictions, and share-price movements ($5.50 at March 31, 2018 and $9.80 at December 31, 2017), the credit that accrued in the current quarter resulting from a change in fair value of earnout liability was $3.8 million. In the corresponding quarter in the prior year, the corresponding figure was a charge of $2.2 million.

Change in fair value of derivative liability

Change in fair value of derivative liability decreased by $1.8 million, to a $1.6 million credit on a reported basis. This was predominantly due to the reduction in share price.

Net loss

On a reported basis, net loss improved from a loss of $9.1 million to a loss of $0.5 million. This resulted from the change in fair value liabilities and an increase in revenue, partly offset by $0.1 million from adverse currency movements and an increase in cost of sales and depreciation and amortization.

Results of Operations –
Three Months ended March 31, 2018 compared to Three Months ended March 31, 2017 –
Server Based Gaming Segment

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

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

SBG segment, Key Performance Indicators

Server Based Gaming		For the Three-Month Period ended Unaudited March 31, 2018		Unaudited March 31, 2017	Variance 2018 vs 2017		%
End of period installed base (# of terminals)		31,616		27,151		4,465	16.4%
Average installed base (# of terminals)		30,723		27,013		3,711	13.7%
Customer Gross Win per unit per day (1)	£	114.53	£	118.97	(£	4.44)	(3.7%)
Customer Net Win per unit per day (1)	£	81.66	£	85.82	(£	4.16)	(4.8%)
Inspired Blended Participation Rate		6.1%		5.9%		0.2%	

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

In the table above:

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

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

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

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

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

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

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

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

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

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

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

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

During the period, we supplied over 500 of our "Flex 4K" products to our second largest UK LBO customer. The "Flex 4K" product is our new curved, Ultra HD touchscreen cabinet, offering players a more immersive gaming experience. We also deployed a further 600 of our "Eclipse" terminals with the same UK customer, resulting in a total machine growth of 23% with this customer.

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

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

Despite the overall reduction in Customer Gross Win per unit per day, the Italian market increased by 13.0% on this measure due to new content releases and improved account management. Our UK SBG terminals in LBOs also generated year-over-year growth of 2.2% in Gross Win per unit per day on a constant currency basis.

SBG segment, Three Months ended March 31, 2018 compared to Three Months ended March 31, 2017

Server Based Gaming	**For the Three-Month Period ended**						
	Unaudited	**Unaudited**	**Variance**		**Variance**		
(In thousands)	**March 31, 2018**	**March 31, 2017**	**2018 vs 2017**		**Constant Currency**		**Currency Movement**
Revenue:							
Service	$ 23,573	$ 16,933	$ 6,640	39.2%	$ 3,935	23.2%	$ 2,705
Hardware	4,220	2,664	1,556	58.4%	1,072	40.2%	484
Total revenue	**27,793**	**19,597**	**8,196**	**41.8%**	**5,007**	**25.5%**	**3,189**
Cost of sales, excluding depreciation and amortization:							
Cost of service	(4,698)	(2,595)	(2,103)	(81.0%)	(1,564)	(60.3%)	(539)
Cost of hardware	(4,067)	(2,451)	(1,616)	(65.9%)	(1,157)	(47.2%)	(459)
Total cost of sales	**(8,765)**	**(5,046)**	**(3,719)**	**(73.7%)**	**(2,721)**	**(53.9%)**	**(998)**
Selling, general and administrative expenses	(4,038)	(3,826)	(212)	(5.5%)	251	6.6%	(463)
Stock-based compensation	(65)	(64)	(1)	(1.6%)	6	10.1%	(7)
Depreciation and amortization	(8,729)	(5,940)	(2,789)	(47.0%)	(1,787)	(30.1%)	(1,002)
Net operating profit	**$ 6,196**	**$ 4,721**	**$ 1,475**	**31.2%**	**$ 756**	**16.0%**	**$ 719**
Exchange Rate - $ to £	*1.40*	*1.24*					

SBG segment revenue. In the period ended March 31, 2018, SBG revenue increased $8.2 million, to $27.8 million, on a reported basis. Of this increase, $3.2 million arose from favorable currency movements. On a constant currency basis, SBG revenue increased by $5.0 million, or 25.5%.

SBG service revenue increased by $6.6 million, or 39.2%, on a reported basis. Of this increase, $2.7 million arose from favorable currency movements. On a constant currency basis, SBG service revenue increased by $3.9 million, or 23.2%, to $23.6 million, primarily due to the continued rollout of terminals into Greece. This rollout drove additional participation revenue of $1.9 million and other recurring revenue of $0.7 million. In addition, during the quarter we completed a software license sale into the Greek market, generating revenue of $1.1 million. SBG service revenue increased on a constant currency basis in the Greek, UK Other (includes UK casinos, gaming hall operators and bingo operators) and Italian markets by $3.8 million, $0.2 million and $0.1 million, respectively, due to the continued rollout in Greece and growth in Italy.

UK LBO Customer Gross Win per unit per day grew by 2.2%. The gains from this increase were offset by revised terms in an SBG contract renewal with one customer in our UK LBO market which was renewed without requiring further capital expenditure.

SBG hardware revenue increased by $1.6 million to $4.2 million, on a reported basis, including favorable currency movements of $0.5 million. On a constant currency basis, SBG hardware revenue increased by $1.1 million, principally due to terminal sales of our new "Flex 4K" product (these are nil margin sales) of $3.2 million, offset by lower hardware sales in the UK (excluding the "Flex 4K" product) of $1.2 million and lower hardware sales in Greece, Colombia and the ETG markets of $0.6 million, $0.3 million and $0.1 million, respectively.

SBG segment operating profit. In the 2018 period, SBG operating profit increased by $1.5 million to $6.2 million, on a reported basis, $0.7 million of which arose from favorable currency movements. On a constant currency basis, SBG operating profit increased by $0.8 million.

SBG cost of sales (excluding depreciation and amortization) increased by $3.7 million to $8.8 million, on a reported basis, $1.0 million of which arose from adverse currency movements. On a constant currency basis, cost of sales increased by $2.7 million. This was principally due to an increase in service costs of $1.6 million, due to Greek SBG service costs of $1.0 million and additional machine consumable costs of $0.3 million, and an increase in hardware costs of $1.2 million due to higher hardware sales in the UK market.

SBG SG&A expenses increased by $0.2 million to $4.0 million, on a reported basis. $0.5 million arose from adverse currency movements, which resulted in a constant currency decrease of $0.3 million.

SBG depreciation and amortization increased by $2.8 million to $8.7 million on a reported basis. Of this amount, $1.0 million arose from adverse currency movements. On a constant currency basis, the increase was $1.8 million, driven by a $1.6 million increase in intangible amortization due to new projects going live in the Greek and UK markets. There was also an increase in machine-related depreciation of $0.8 million driven by the continued terminal rollout in the Greek and UK markets. These were partially offset by savings of $0.6 million from fully depreciated terminals in the Italian market and the sale of assets in the Colombian market.

SBG segment, Service Revenue by Region

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

Server Based Gaming, Service Revenue by Region	**For the Three-Month Period ended**						
	Unaudited March 31,	**Unaudited March 31,**	**Variance**		**Variance**		
(In thousands)	**2018**	**2017**	**2018 vs 2017**		**Constant Currency**		**Currency Movement**
Service Revenue:							
UK LBO	$ 14,766	$ 13,153	$ 1,613	12.3%	($ 84)	(0.6%)	$ 1,697
UK Other	1,663	1,249	414	33.2%	223	17.8%	191
Italy	2,436	2,039	397	19.5%	116	5.7%	281
Greece	4,406	91	4,315	4,725.5%	3,825	4,189.4%	490
Rest of the World	301	401	(100)	(24.9%)	(135)	(33.6%)	35
Total service revenue	**$ 23,573**	**$ 16,933**	**$ 6,639**	**39.2%**	**$ 3,945**	**23.3%**	**$ 2,694**
Exchange Rate - $ to £	*1.40*	*1.24*					

Results of Operations –
Three Months ended March 31, 2018 compared to Three Months ended March 31, 2017 –
Virtual Sports Segment

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

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

Virtual Sports segment, Key Performance Indicators

Virtual Sports	For the Three-Month Period ended Unaudited March 31, 2018		Unaudited March 31, 2017		Variance 2018 vs 2017		%
No. of Live Customers at the end of the period		94		78		16	20.5%
Average No. of Live Customers		90		78		12	15.4%
Total Revenue (£'000)	£	6,898	£	6,830	£	68	1.0%
Total Revenue £'000 - Retail	£	4,265	£	4,344	(£	79)	(1.8%)
Total Revenue £'000 - Interactive	£	2,634	£	2,487	£	147	5.9%
Average Revenue Per Customer per day (£)	£	849	£	973	(£	124)	(12.8%)

In the table above:

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

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

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

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

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

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

By the end of the period, our Mobile RGS business was live with twenty-two customers, having launched sixteen new customers since March 31, 2017, including Bet Victor, Aspire Global, White Hat Gaming, Casino Land, Casino777 and Netbet. The Average Number of Live Customers increased by twelve, from 78 to 90, including new Mobile RGS customers. Average Revenue per Customer per day for the year decreased by £124, from £973 to £849, due to the timing difference of a contract renewal on a major customer.

Virtual Sports segment, Three Months ended March 31, 2018 compared to Three Months ended March 31, 2017

Virtual Sports	**For the Three-Month Period ended**						
	Unaudited March 31,	**Unaudited March 31,**	**Variance**		**Variance**		
(In thousands)	**2018**	**2017**	**2018 vs 2017**		**Constant Currency**		**Currency Movement**
Service Revenue	**$ 9,660**	**$ 8,463**	**$ 1,197**	**14.1%**	**$ 88**	**1.0%**	**$ 1,108**
Cost of Service	(1,319)	(637)	(682)	(107.1%)	(531)	(83.3%)	(151)
Selling, general and administrative expenses	(1,972)	(1,454)	(518)	(35.6%)	(292)	(20.1%)	(226)
Stock-based compensation	(79)	(78)	(1)	(1.3%)	8	10.3%	(9)
Depreciation and amortization	(2,048)	(1,555)	(493)	(31.7%)	(258)	(16.6%)	(235)
Net operating profit	**$ 4,242**	**$ 4,739**	**($ 497)**	**(10.5%)**	**($ 984)**	**(20.8%)**	**$ 487**
Exchange Rate - $ to £	*1.40*	*1.24*					

Virtual Sports segment revenue. During the period, revenue increased $1.2 million or 14.1% to $9.7 million on a reported basis. Of this increase, $1.1 million arose from favorable currency movements. On a constant currency basis, Virtual Sports revenue increased by $0.1 million, or 1.0%, to $9.7 million.

This increase was principally the result of recurring revenue growth of $0.2 million in Virtual Sports land-based and online customers. Growth was negatively affected by a timing difference in the 2018 contract renewal of a major customer and by the recognition of 2017 revenues previously unreported to us, as well as by the timing of RGS content sales. Excluding these, revenue increased by $1.6 million on a constant currency basis, driven by new customer revenue in Finland of $0.1 million, continued growth in Greece of $0.9 million, growth in the UK of $0.3 million and growth in Poland of $0.1 million. A $0.4 million increase arose from further Mobile RGS penetration into the mobile market, where the number of our customers increased from six to twenty-two. These increases were partly offset a $0.2 million reduction in revenue from long-term licenses that have now come to an end.

Virtual Sports segment operating profit. During the period, Virtual Sports operating profit decreased by $0.5 million, on a reported basis. The decrease in operating profit was offset by $0.5 million favorable currency movements. On a constant currency basis, this represented a decrease of $1.0 million.

Virtual Sports cost of service increased by $0.7 million to $1.3 million, on a reported basis. Of this increase, $0.2 million arose from adverse currency movements. On a constant currency basis, cost of service increased by $0.5 million, due to additional costs of supplying new recurring contracts.

Virtual Sports SG&A expenses increased by $0.5 million, on a reported basis. Of this increase, $0.2 million arose from adverse currency movement, resulting in a constant currency increase of $0.3 million. This was due to an increase in staff related costs and technology costs due to increasing Virtual Sports deployments.

Virtual Sports depreciation and amortization increased by $0.5 million to $2.0 million, on a reported basis. Of this increase, $0.2 million arose from adverse currency movement. This resulted in an increase of $0.3 million on a constant currency basis which relates to an impairment of an intangible fixed asset.

Results of Operations –
Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017

(In thousands)	**For the Six-Month Period ended Unaudited March 31, 2018**	**Unaudited March 31, 2017**	**Variance 2018 vs 2017**		**Currency Movement**	**Variance Days Movement**	**Like-for-Like Variance**	
Revenue:								
Service	$ 63,600	$ 50,640	$ 12,960	25.6%	$ 5,999	($ 1,562)	$ 8,523	17.4%
Hardware	5,240	4,457	783	17.6%	540	—	243	5.4%
Total revenue	**68,840**	**55,097**	**13,743**	**24.9%**	**6,540**	**(1,562)**	**8,766**	**16.4%**
Cost of sales, excluding depreciation and amortization:								
Cost of service	(11,213)	(6,980)	(4,233)	(60.6%)	(1,066)	256	(3,423)	(50.9%)
Cost of hardware	(4,973)	(3,612)	(1,361)	(37.7%)	(518)	—	(843)	(23.3%)
Selling, general and administrative expenses	(31,996)	(28,135)	(3,861)	(13.7%)	(2,972)	841	(1,730)	(6.3%)
Stock-based compensation	(4,449)	(1,327)	(3,122)	(235.3%)	(385)	—	(2,737)	(206.3%)
Acquisition related transaction expenses	(802)	(11,273)	10,471	92.9%	(72)	—	10,543	93.5%
Depreciation and amortization	(20,680)	(15,172)	(5,508)	(36.3%)	(1,959)	498	(4,047)	(27.6%)
Net operating Income	**(5,273)**	**(11,402)**	**6,129**	**53.8%**	**(432)**	**33**	**6,529**	**57.4%**
Other income (expense)								
Interest income	131	12	119	(992.1%)	13	(1)	106	(943.6%)
Interest expense	(10,068)	(18,965)	8,897	46.9%	(949)	883	8,963	49.6%
Change in fair value of earnout liability	8,411	(879)	9,290	1057.0%	783	—	8,507	967.9%
Change in fair value of derivative liability	1,872	(79)	1,951	2469.0%	197	—	1,754	2219.7%
Other finance income (costs)	390	(107)	497	464.7%	37	3	457	441.1%
Total other income (expense), net	**736**	**(20,018)**	**20,753**	**103.7%**	**81**	**886**	**19,787**	**103.4%**
Net loss from continuing operations before income taxes	(4,537)	(31,420)	26,882	85.6%	(351)	918	26,316	86.3%
Income tax expense	(116)	(83)	(33)	(40.0%)	(12)	(0)	(22)	(26.0%)
Net loss	**($ 4,653)**	**($ 31,503)**	**$ 26,849**	**85.2%**	**($ 363)**	**$ 918**	**$ 26,295**	**86.0%**
Exchange Rate - $ to £	*1.37*	*1.24*						

Revenue

Total revenue for the six-month period ended March 31, 2018 increased by $13.7 million, or 24.9%, to $68.8 million, on a reported basis. Favorable currency movements accounted for $6.5 million of the increase, which was partly offset by a $1.6 million decrease due to there being fewer days in the 2018 period than in the 2017 period. On a constant currency basis, revenue increased by $8.8 million, or 16.4%.

SBG revenue, which is included in total revenue, above, increased by $7.4 million on a constant currency basis, or 19.1%, comprised of growth in service revenue of $7.1 million and in hardware sales of $0.2 million.

The increase in SBG service revenue of $7.1 million on a constant currency basis, or 20.9%, is primarily as a result of the continued rollout of terminals in Greece driving $4.7 million of incremental revenue and software license sales of $2.2 million into the Greek market.

The increase in hardware revenue was driven by SBG terminal sales in the UK market of our new “Flex 4K” product of $3.2 million. This was offset by a decrease in the Greek, UK (excluding the “Flex 4K” product), ETG and Colombian markets of $1.1 million, $0.7 million, $0.6 million and $0.6 million, respectively.

Virtual Sports revenue increased by $1.4 million on a constant currency basis, or 9.6%, driven by new customer revenue in Mobile RGS and new Virtual Sports customers in Greece, Ireland, Finland and Poland, as well as an increase in revenue from existing customers, due in part to additional channels offered. Growth was negatively affected by a timing difference in the 2018 contract renewal of a major customer and by the recognition of 2017 revenues previously unreported to us, as well as by the timing of RGS content sales. Excluding these, Virtual Sports revenue increased by $3.1 million on a constant currency basis, or 23%.

Cost of sales, excluding depreciation and amortization

Cost of sales, excluding depreciation and amortization, increased from the six-month period ended March 31, 2017 by $5.6 million, or 52.8%, on a reported basis, to $16.2 million. Of this increase, $1.6 million arose from adverse currency movements, offset by a reduction of $0.3 million due to there being fewer days in the 2018 period. On a constant currency basis, cost of sales increased by $4.3 million, or 41.3%.

Cost of service increased by $3.4 million, or 50.9%, on a constant currency basis, due to an increase in Greece SBG service costs of $1.4 million, $0.8 million from additional machine consumable costs to service UK SBG terminals and $0.8 million due to additional costs supporting new recurring contracts for Virtual Sports.

Cost of hardware increased by $0.8 million, or 23.3%, on a constant currency basis, due to higher nil margin hardware sales of the “Flex 4k” product terminal and other hardware sales in the UK market. This was partly offset by lower nil margin hardware sales in Greece and lower hardware sales in the ETG and Colombian markets.

Selling, general and administrative expenses

SG&A expenses increased from the six-month period ended March 31, 2017 by $3.9 million, or 13.7%, on a reported basis, to $32.0 million. Of this increase, $3.0 million arose from adverse currency movements, offset by a reduction of $0.8 million due to there being fewer days in the current year period. On a constant currency basis, SG&A expenses increased by $1.7 million, or 6.3%. This increase was driven by additional public company costs of $1.1 million due to the prior period containing only three months of post-Business Combination transaction expenses and incremental group restructuring costs of $0.5 million.

Stock-based compensation

During the 2018 six-month period, the Company recorded an expense of $4.4 million in respect of outstanding awards, including a $2.1 million charge relating to the cancellation of awards under the First Incentive Plan covering 1,076,272 shares, the granting of awards under the Second Incentive Plan (which at that time was not yet stockholder-approved) covering an equal number of shares, and the differences in accounting treatment applied to First Incentive Plan awards and Second Incentive Plan awards prior to the stockholder approval of the Second Incentive Plan. In the corresponding six-month period in 2017, there was a $1.3 million charge for stock-based compensation, which was incurred predominantly in the second quarter.

Acquisition related transaction expenses

Acquisition related transaction expenses decreased by $10.5 million in the six-month period ended March 31, 2018 to $0.8 million, on a reported basis. All of the 2018 period expenses were related to work in respect of potential acquisitions. All of the prior period expenses were related to the Business Combination.

Depreciation and amortization

Depreciation and amortization increased by $5.5 million, or 36.3%, in the six-month period ended March 31, 2018, to $20.7 million, on a reported basis. Of this increase, $2.0 million arose from adverse currency movements, partly offset by $0.5 million due to there being fewer days in the 2018 period.

On a constant currency basis, depreciation and amortization increased by $4.0 million, or 27.6%. This increase was driven by a $3.6 million increase due to additional amortization accruing in connection with new platforms and games going live across SBG ($3.0 million) and Virtual Sports ($0.6 million) and a $0.4 million increase due to additional machine depreciation.

Net operating loss

On a reported basis, net operating loss improved from a loss of $11.4 million in the six-month period ended March 31, 2017 to a loss of $5.3 million in the six-month period ended March 31, 2018. Of this variance, $0.4 million arose from adverse currency movements. On a constant currency basis, net operating loss decreased by $6.5 million, mainly due to an increase in revenue and a reduction in transaction expenses, partly offset by higher cost of sales, depreciation and amortization and stock-based compensation.

Interest expense

Interest expense decreased by $8.9 million, or 46.9%, in the six-month period ended March 31, 2018, to $10.1 million, on a reported basis. Of this variance, $0.9 million arose from adverse currency movements, offset by $0.9 million due to there being fewer days in the 2018 period. On a constant currency basis, interest expense decreased by $9.0 million. The decrease was principally due to a $9.5 million reduction in PIK loan note interest and a $0.6 million reduction in debt fee amortization. All PIK loan notes were external to the group prior to the Business Combination, at which point they became internal before subsequently being waived on May 31, 2017. This reduction was partly offset by a $0.8 million increase in PIK interest charged on our senior debt, as a result of the quarterly compounding of the debt increasing the effective daily charge.

Change in fair value of earnout liability

As a result of changes in expectations relating to of the Earnout Jurisdictions, and share-price movements ($5.50 at March 31, 2018 and $13.25 at September 30, 2017), the credit that accrued in the 2018 six-month period resulting from a change in fair value of earnout liability was $8.4 million. In the prior six-month period, the corresponding figure was a $0.9 million charge.

Change in fair value of derivative liability

Change in fair value of derivative liability decreased by $2.0 million, to a $1.9 million credit on a reported basis. This was predominantly due to the reduction in share price.

Net loss

On a reported basis, net loss improved to a loss of $4.7 million, offset by $0.4 million of loss that arose from adverse currency movements. This resulted in a constant currency improvement of $26.3 million, mainly due to a reduction in transaction expenses, a reduction in interest expense, an increase in revenue and the change in fair value of liabilities. This was partly offset by higher cost of sales, depreciation and amortization and stock-based compensation.

Results of Operations –
Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017 –
Server Based Gaming Segment

SBG segment, Key Performance Indicators

	For the Six-Month Period ended		Variance	
Server Based Gaming	**March 31, 2018**	**March 31, 2017**	**2018 vs 2017**	**%**
End of period installed base (# of terminals)	31,616	27,151	4,465	16.4%
Average installed base (# of terminals)	29,944	26,914	3,029	11.3%
Customer Gross Win per unit per day (1)	£ 115.20	£ 118.88	(£ 3.69)	(3.1%)
Customer Net Win per unit per day (1)	£ 82.26	£ 85.76	(£ 3.50)	(4.1%)
Inspired Blended Participation Rate	6.1%	6.0%	0.1%	—

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

For definitions of the terms used in the table above, see the definitions provided under the corresponding “SBG segment, Key Performance Indicators” table for the three-month periods ended March 31, 2017 and 2018, set forth earlier in this Management’s Discussion and Analysis section.

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

Our SBG rollout into the Greek market continued during the period, with approximately 3,900 terminals installed as of March 31, 2018. During the period a further 2,035 terminals were awarded, which form part of our phase two rollout plan to be delivered across 2018 and also carry a software license sale award. The performance of our Greek terminals continues to be strong compared to other suppliers during the period.

During the period, we launched our new SBG cabinet, the “Flex 4K” product with trials with two of our major UK LBO customers. We have contracted for the sale of 600 Flex terminals to our second largest UK LBO customer, of which over 500 had been installed by the end of the period. We deployed a further 600 of our “Eclipse” terminals with the same UK customer, resulting in a total machine growth of 23% with this customer.

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

Overall, the size of our Average Installed Base increased 11.3%, to 29,944, due to our continued terminal rollout in Greece and contract awards in the UK LBO estate. Customer Gross Win per unit per day (in our functional currency, GBP) decreased by 3.1%, driven by the impact of our SBG installations in Greece, as our Greek machines return a lower daily Customer Gross Win compared to our UK machines. Our blended participation rate increased 0.1% to 6.1% due to an increased proportion of Greece installed base.

Despite the overall reduction in Customer Gross Win per unit per day, the Italian market increased by 9.9% on this measure due to new content releases. Our UK SBG terminals in LBOs also generated year-over-year growth of 2.3% in Gross Win per unit per day on a constant currency basis.

SBG segment, Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017

Server Based Gaming	**For the Six-Month Period ended**							
	Unaudited March 31,	**Unaudited March 31,**	**Variance**		**Currency**	**Variance Days**	**Like-for-Like**	
(In thousands)	**2018**	**2017**	**2018 vs 2017**		**Movement**	**Movement**	**Variance**	
	$ ‘000	*$ ‘000*	*$ ‘000*	%				
Revenue:								
Service	$ 45,382	$ 35,154	$ 10,228	29.1%	$ 4,255	($ 1,138)	$ 7,112	20.9%
Hardware	5,240	4,457	783	17.6%	540	—	243	5.4%
Total revenue	**50,622**	**39,611**	**11,011**	**27.8%**	**4,795**	**(1,138)**	**7,355**	**19.1%**
Cost of sales, excluding depreciation and amortization:								
Cost of service	(8,751)	(5,491)	(3,260)	(59.4%)	(820)	195	(2,636)	(49.8%)
Cost of hardware	(4,973)	(3,612)	(1,361)	(37.7%)	(466)	—	(895)	(24.8%)
Total cost of sales	**(13,724)**	**(9,103)**	**(4,621)**	**(50.8%)**	**(1,287)**	**195**	**(3,531)**	**(39.6%)**
Selling, general and administrative expenses	(7,987)	(7,650)	(337)	(4.4%)	(749)	234	178	2.4%
Stock-based compensation	(137)	(64)	(73)	(114.1%)	(13)	—	(60)	(94.0%)
Depreciation and amortization	(16,336)	(11,593)	(4,743)	(40.9%)	(1,532)	346	(3,558)	(31.6%)
Net operating profit	**$ 12,438**	**$ 11,201**	**$ 1,237**	**11.0%**	**$ 1,215**	**($ 362)**	**$ 384**	**3.5%**
Exchange Rate - $ to £	*1.37*	*1.24*						

SBG segment revenue. In the six-month period ended March 31, 2018, SBG revenue increased $11.0 million, to $50.6 million, on a reported basis. Of this increase, $4.8 million arose from favorable currency movements, partly offset by $1.1 million due to fewer days in the 2018 period. On a constant currency basis, SBG revenue increased by $7.4 million, or 19.1%.

SBG service revenue increased by $10.2 million, or 29.1%, on a reported basis. Of this increase, $4.3 million arose from favorable currency movements, partly offset by $1.1 million due to there being fewer days in the 2018 period vs 2017. On a constant currency basis, SBG service revenue increased by $7.1 million, or 20.9%, to $45.4 million, primarily due to the continued rollout of terminals into Greece. This rollout drove additional participation revenue of $3.4 million and other recurring revenue of $1.3 million. In addition, during the 2018 period we completed a software license sale into the Greek market, generating revenue of $2.2 million.

SBG service revenue increased on a constant currency basis in the Greek, UK Other, UK LBO and Italian markets by $7.0 million, $0.4 million, $0.1 million and $0.1 million, respectively, due to the continued rollout in Greece and growth in the UK and Italy markets. This was partly offset by a decrease in service revenue in other jurisdictions by $0.5 million, due to the revised terms in Colombia following the sale of machines in 2017.

UK LBO Customer Gross Win per unit per day grew by 2.8%. These gains were offset by revised terms agreed in a SBG contract extension and a SBG contract renewal with two major customers in our UK LBO market, respectively. The contract extension and renewal allowed us to continue to generate revenue without the obligation to make further capital investment.

SBG hardware revenue increased by $0.8 million to $5.2 million, on a reported basis, including favorable currency movements of $0.5 million. On a constant currency basis, SBG hardware revenue increased by $0.2 million, principally due to higher terminal sales of our new “Flex 4K” product of $3.2 million. This was partly offset by higher terminal sales in 2017 in the Greek, UK (excluding the “Flex 4K” product), Colombian and ETG markets, totaling $1.1 million, $0.7 million, $0.6 million and $0.6 million, respectively.

SBG segment operating profit. In the six-month period ended March 31, 2018, SBG operating profit increased by $1.2 million to $12.4 million, on a reported basis. Of this variance, $1.2 million arose from favorable currency movements, offset by a decrease of $0.4 million due to there being fewer days in the period. On a constant currency basis, SBG operating profit increased by $0.4 million, or 3.5%.

SBG cost of sales (excluding depreciation and amortization) increased by $4.6 million to $13.7 million, on a reported basis. Of this variance, $1.3 million arose from adverse currency movements, partly offset by $0.2 million due to there being fewer days in the period. On a constant currency basis, cost of sales increased by $3.5 million. This was principally due to an increase in service costs of $2.6 million, due to Greek SBG service costs of $1.4 million, additional machine consumable costs of $0.8 million and higher hardware costs of $0.9 million due to higher hardware sales in the UK market.

SBG SG&A expenses increased by $0.3 million to $8.0 million, on a reported basis. Of this variance, $0.7 million arose from adverse currency movements, partly offset by $0.2 million due to there being fewer days in the period. This resulted in a constant currency decrease of $0.2 million.

SBG depreciation and amortization increased by $4.7 million to $16.3 million on a reported basis. Of this amount, $1.5 million arose from adverse currency movement, partially offset by $0.3 million due to there being fewer days in the period. On a constant currency basis the increase was $3.6 million, driven by a $3.1 million increase in intangible amortization due to new projects going live in the Greek, UK and Italian markets and an increase in machine-related depreciation of $1.4 million driven by the continued terminal rollout in the Greek and UK markets. These were partially offset by savings of $1.0 million from fully depreciated terminals in the Italian market and the sale of assets in the Colombian market.

SBG segment, Revenue by Region

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

Server Based Gaming, Service Revenue by Region	**For the Six-Month Period ended**								
(In thousands)	**Unaudited March 31, 2018**	**Unaudited March 31, 2017**	**Variance 2018 vs 2017**		**Currency Movement**	**Variance Days Movement**	**Like-for-Like Variance**		
Service Revenue:									
UK LBO	$ 29,047	$ 27,112	$ 1,935	7.1%	$ 2,723	($ 886)	$ 98	0.4%	
UK Other	3,382	2,761	621	22.5%	317	(97)	402	15.1%	
Italy	4,544	4,174	370	8.9%	426	(122)	66	1.6%	
Greece	7,839	91	7,747	8,484.4%	735	—	7,012	7,679.6%	
Rest of the World	569	1,015	(446)	(43.9%)	53	(33)	(466)	(47.5%)	
Total service revenue	**$ 45,382**	**$ 35,154**	**$ 10,228**	**29.1%**	**$ 4,255**	**($ 1,138)**	**$ 7,112**	**20.9%**	
Exchange Rate - $ to £	*1.37*	*1.24*							

Results of Operations –
Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017 –
Virtual Sports Segment

Virtual Sports segment, Key Performance Indicators

Virtual Sports	**For the Six-Month Period ended March 31, 2018**	**March 31, 2017**	**Variance 2018 vs 2017**	**%**
No. of Live Customers at the end of the period	94	78	16	20.5%
Average No. of Live Customers	87	78	9	11.1%
Total Revenue (£'000)	£ 13,269	£ 12,466	£ 803	6.4%
Total Revenue £'000 - Retail	£ 8,084	£ 7,665	£ 419	5.5%
Total Revenue £'000 - Interactive	£ 5,185	£ 4,800	£ 385	8.0%
Average Revenue Per Customer per day (£)	£ 841	£ 867	(£ 26)	(3.0%)

For definitions of the terms used in the table above, see the definitions provided under the corresponding "Virtual Sports segment, Key Performance Indicators" table for the three-month periods ended March 31, 2017 and 2018, set forth earlier in this Management's Discussion and Analysis section.

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

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

During the six-month period, our Virtual Sports products continued to grow in Poland through the retail venues and online channels of Fortuna, Central Europe's largest betting operator. Under an agreement that extends to 2019, Fortuna customers in Poland are able to play Virtual Football (soccer), Virtual Horses, Virtual Greyhounds, Virtual Speedway and Virtual Motor Racing. We also launched Virtual Sports in Finland through the retail venues and online channels of Veikkaus, Finland's national lottery.

By the end of the six-month period, our Mobile RGS business was live with twenty-two customers, having launched ten new customers since March 31, 2017, including Aspire Global, Betfair, Bet Victor, Grosvenor Casino (part of the Rank Group), Bwin, Sportingbet, VideoSlots, and a variety of Betsson brands. The Average Number of Live Customers increased by nine, from 78 to 87, including new Mobile RGS customers. Average Revenue per Customer per day for the year decreased by £26, from £867 to £841, due to the timing difference of a contract renewal on a major customer.

Virtual Sports segment, Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017

Virtual Sports	**For the Six-Month Period ended**		**Variance**		**Variance**			
(In thousands)	**Unaudited March 31, 2018**	**Unaudited March 31, 2017**	**2018 vs 2017**		**Currency Movement**	**Days Movement**	**Like-for-Like Variance**	
Service Revenue	**$ 18,218**	**$ 15,486**	$ 2,732	17.6%	$ 1,708	($ 424)	$ 1,448	9.6%
Cost of Service	(2,462)	(1,489)	(973)	(65.3%)	(231)	60	(802)	(56.1%)
Selling, general and administrative expenses	(3,884)	(3,250)	(634)	(19.5%)	(364)	110	(380)	(12.1%)
Stock-based compensation	(166)	(78)	(88)	(112.8%)	(16)	—	(72)	(92.9%)
Depreciation and amortization	(3,648)	(2,623)	(1,025)	(39.1%)	(342)	65	(748)	(29.3%)
Net operating profit	**$ 8,058**	**$ 8,046**	**$ 12**	**0.1%**	**$ 755**	**($ 188)**	**($ 554)**	**(7.1%)**
Exchange Rate - $ to £	*1.37*	*1.24*						

Virtual Sports segment revenue. In the period ended March 31, 2018, Virtual Sports revenue increased $2.7 million on a reported basis. Of this increase, $1.7 million arose from favorable currency movements, partly offset by $0.4 million due to there being fewer days in the period. On a constant currency basis, Virtual Sports revenue increased by $1.4 million, or 9.6%, to $18.2 million.

This increase was principally the result of recurring revenue growth of $1.6 million in Virtual Sports land-based and online customers. Growth was negatively affected by a timing difference in the 2018 contract renewal of a major customer and by the recognition of 2017 revenues previously unreported to us, as well as by the timing of RGS content sales. Excluding these, revenue increased by $3.1 million, driven by new customer revenue in Finland of $0.1 million, continued growth in Greece of $1.8 million, growth in the UK of $0.4 million, growth in Ireland of $0.3 million and growth in Poland of $0.2 million. A $0.9 million increase arose from further Mobile RGS penetration into the mobile market, where the number of our customers increased from six to twenty-two. These increases were partly offset by a $0.7 million reduction in revenue from long-term licenses that have now come to an end.

Virtual Sports segment operating profit. In the period ended March 31, 2018, Virtual Sports operating profit remained flat on a reported basis. Variances that were offset were $0.8 million from favorable currency movements, partly offset by $0.2 million due to there being fewer days in the period. On a constant currency basis, this represented a decrease of $0.6 million.

Virtual Sports cost of service increased by $1.0 million to $2.5 million, on a reported basis. Of this increase, $0.2 million arose from adverse currency movements, offset by $0.1 million due to there being fewer days in the period. On a constant currency basis, cost of service increased by $0.8 million, due to additional third-party costs payable on new recurring contracts.

Virtual Sports SG&A expenses increased by $0.6 million, on a reported basis. Of this increase, $0.4 million arose from adverse currency movements, offset by $0.1 million due to there being fewer days in the period. This resulted in a constant currency increase of $0.4 million.

Virtual Sports depreciation and amortization increased by $1.0 million to $3.6 million, on a reported basis. Of this increase, $0.3 million arose from adverse currency movement, offset by $0.1 million due to there being fewer days in the period. This resulted in a constant currency increase of $0.7 million, due to additional deprecation of platforms and games going live.

Non-GAAP Financial Measures

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

We define our non-GAAP financial measures as follows:

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

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

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

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

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

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

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

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

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

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

Reconciliation to Adjusted EBITDA

(In thousands)	**For the Three-Month Period ended Unaudited March 31, 2018**	**Unaudited March 31, 2017**
Net loss	($ 498)	($ 9,120)
Items Relating to Legacy Activities:		
Pension charges	139	166
Costs relating to former operations	—	43
Litigation Settlement	260	—
Items outside the normal course of business:		
Costs of group restructure	257	467
Transaction fees	228	812
Stock-based compensation expense	1,251	1,290
Depreciation and amortization	11,120	8,004
Total other expense, net	(437)	6,953
Income tax	83	32
Adjusted EBITDA	**$ 12,403**	**$ 8,648**
Adjusted EBITDA	**£ 8,862**	**£ 6,979**
Exchange Rate - $ to £	*1.40*	*1.24*

Notes to table:

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

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

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

(4) “Costs of group restructure” include redundancy costs, Payments In Lieu of Notice Costs and any associated employer taxes. To qualify as being an adjusting item, costs must be part of a large restructuring project, which will net save future costs.

(5) Transaction fees, Stock-based compensation expense, Depreciation and amortization, Total other expense, net and Income tax are as described above in the Results of Operations line item discussions.

	For the Six-Month Period ended		
(In thousands)	**Unaudited March 31, 2018**	**Unaudited March 31, 2017**	**Adjusted March 31, 2017**
Net loss	($ 4,653)	($ 31,503)	($ 30,586)
Items Relating to Legacy Activities:			
Pension charges	279	346	334
(Credit)/Costs relating to former operations	5	(70)	(62)
Litigation Settlement	260	—	—
Items outside the normal course of business:			
Costs of group restructure	1,037	467	467
Transaction fees	802	11,273	11,273
Stock-based compensation expense	4,449	1,327	1,327
Depreciation and amortization	20,680	15,172	14,674
Total other expense, net	(736)	20,018	19,218
Income tax	116	83	83
Adjusted EBITDA	**$ 22,238**	**$ 17,113**	**$ 16,729**
Adjusted EBITDA	**£ 16,218**	**£ 13,771**	**£ 13,462**
Exchange Rate - $ to £	*1.37*	*1.24*	*1.24*

Notes to table:

(1) The adjusted column restates the prior year figures based on a 182-day period rather than the actual 188-day period so as to show a constant currency comparison.

(2) For definitions of the terms used in the table, see notes 1-5 to the prior table showing the reconciliation of Adjusted EBITDA for the three-month periods ended March 31, 2017 and 2018.

Reconciliation to Adjusted Revenue

We believe that accounting for nil margin hardware sales in conformance with U.S. GAAP can result in a distorted presentation of our revenue and growth. Therefore, we use Revenue Excluding Nil Margin Sales, or Adjusted Revenue, to internally analyze our operating performance. A reconciliation from revenue, as shown in our Consolidated Statements of Operations and Comprehensive Loss included elsewhere in this report, to Adjusted Revenue is shown below.

	For the Three-Month Period ended	
(In thousands)	**Unaudited March 31, 2018**	**Unaudited March 31, 2017**
Net revenues	$ 37,453	$ 28,060
Less Nil Margin Sales	(3,609)	(896)
Adjusted Revenue	**$ 33,844**	**$ 27,164**
Adjusted Revenue	**£ 24,181**	**£ 21,924**
Exchange Rate - $ to £	$ 1.40	$ 1.24

	For the Six-Month Period ended		
(In thousands)	**Unaudited March 31, 2018**	**Unaudited March 31, 2017**	**Adjusted March 31, 2017**
Net revenues	$ 68,840	$ 55,097	$ 53,534
Less Nil Margin Sales	(3,609)	(1,430)	(1,430)
Adjusted Revenue	**$ 65,231**	**$ 53,667**	**$ 52,104**
Adjusted Revenue	**£ 47,572**	**£ 43,188**	**£ 41,930**
Exchange Rate - $ to £	*1.37*	*1.24*	*1.24*

Liquidity and Capital Resources

Six Months ended March 31, 2018 compared to Six Months ended March 31, 2017

(in thousands)	Period Ended March 31, 2018	Period Ended March 31, 2017	Variance 2018 to 2017
Net loss	($ 4,653)	($ 31,503)	$ 26,850
Non-cash interest expense	3,881	9,762	(5,881)
Change in fair value of derivative and earnout liabilities and stock based compensation expense	(6,143)	2,285	(8,428)
Other net cash provided by operating activities	13,475	7,155	6,320
Net cash provided by/(used in) operating activities	6,560	(12,301)	18,861
Net cash used in investing activities	(13,934)	(20,340)	6,406
Net cash provided by financing activities	1,242	42,865	(41,623)
Effect of exchange rates on cash	(477)	1,635	(2,112)
Net increase/(decrease) increase in cash and cash equivalents	($ 6,609)	$ 11,859	($ 18,468)

Net cash provided by operating activities. In the 2018 six-month period, net cash inflow generated by operating activities was $6.6 million, compared to an outflow of $12.3 million in the prior six-month period, representing an $18.9 million improvement in cash generation.

Non-cash interest expense decreased by $5.9 million, to $3.9 million, as a consequence of the Business Combination in the prior six-month period. As part of that transaction, outstanding PIK loan notes became internal and were subsequently waived on May 31, 2017. The related non-cash interest expense ceased to be an external charge to the Company from the date of the Business Combination.

Change in fair value of derivative and earnout liabilities and stock based compensation expense decreased by $8.4 million from an inflow of $2.3 million to an outflow of $6.1 million. Movements in the market value of the stock price resulted in a $11.2 million higher outflow in the 2018 six-month period which was partly offset by a $2.8 million movement in stock based compensation expense.

Other net cash provided by operating activities increased by $6.3 million, to $13.5 million. Despite higher trading levels producing a typical requirement for an increase in working capital, significant drivers increasing other net cash provided by operating activities included the relative movement of accounts receivable of $11.7 million, the movement in deferred revenue creditors of $4.1 million and the increase in depreciation and amortization $5.5 million. The accounts receivable movement is predominantly explained by the relative movements in the level of Greece related receivables, the 2018 six-month period showing a $6.2 million reduction in the Greece receivable balance whereas the prior year six-month period showed a $6.4 million increase. In addition, the continued rollout of machines in Greece has resulted in a $2.4 million movement in deferred revenue creditors and the classification of a number of projects as completed has increased the amortization charge in the 2018 six-month period relative to the prior six-month period. These items were partly offset by the movement in supplier levels resulting in an $8.4 million outflow in the 2018 six-month period relative to the prior year six-month period, the movement in accruals in the 2018 six-month period costs giving a $3.9 million outflow and the reduction in the levels of inventory held for the Greece machine build in the prior year six-month period giving a $1.7 million outflow.

Net cash used in investing activities. In the 2018 six-month period, net cash used in investing activities decreased by approximately $6.4 million, to $13.9 million. The decrease was attributable to lower spending on property, plant and equipment and capital software compared to the prior six-month period due to the relative project and staff resource mix.

Net cash provided by financing activities. In the 2018 six-month period, net cash from financing activities decreased by $41.6 million, to a $1.2 million inflow. This was due to the prior period benefitting from a cash injection of $16.7 million received following the Business Combination, and $21.6 million of proceeds received from a private placement of common stock. In addition, during the 2018 six-month period, we paid $7.7 million to reduce the outstanding balance under our senior debt facility. These were partly offset by a $5.3 million increase in proceeds from greater utilization of the revolver facility in the 2018 six-month period.

Funding Needs and Sources

To fund our obligations, we have historically relied on a combination of cash flows provided by operations and the incurrence of additional debt or the refinancing of existing debt. As of March 31, 2018, we had liquidity of $13.4 million in cash and cash equivalents. This compares to $13.3 million at the end of the prior six-month period. We had a working capital outflow of $7.3 million in the 2018 six-month period, compared to an $8.0 million outflow in the prior six-month period. The level of our working capital surplus or deficit varies with the level of machine production we are undertaking and our capitalization. In periods where significant levels of machines are being produced, the levels of inventory and creditors are higher than average and there is a natural timing difference between converting the stock into sellable or capitalized plant and settling payments to suppliers. These factors, along with movements in trading activity levels, can result in significant working capital volatility. In periods of low activity, our working capital volatility is reduced. Working capital is reviewed and managed with the aim of ensuring that current liabilities are covered by the level of cash held and the expected level of short-term receipts.

Significant portions of our cash flows from operations arise in Greece, from our operations in that country. As of March 31, 2018, $6.4 million of our $13.4 million of cash and cash equivalents had arisen in Greece and was being held there in our Greek accounts. In the ordinary course of business, we seek from time to time to transfer funds earned in Greece to accounts of ours outside Greece. However, Greece imposes capital controls that complicate, and can delay or prevent, the flow of capital out of that country. Historically, we have always been able to complete such transfers. Nevertheless, if approvals of our transfers of funds out of Greece are ever materially delayed or prevented, our cash planning and our ability to deploy cash across our operations could be adversely affected. See “Risk Factors – The capital controls imposed by Greece as a consequence of its financial crisis can cause problems for the transfer of our earnings out of Greece.”

Management currently believes that the Company’s cash balances on hand, cash flows expected to be generated from operations, ability to control and defer capital projects and borrowings available under the Company’s credit facilities will be sufficient to fund the Company’s net cash requirements through May 2019. If the Company were to undertake any acquisitions, it might be required to finance them, in whole or in part, by issuing additional equity or debt securities or increasing its borrowing levels.

Long Term and Other Debt

(In thousands)	March 31, 2018		March 31, 2017	
Revolver drawn	12,320	17,262	11,000	13,723
Original principal senior debt	72,500	101,580	72,500	90,444
Compounded PIK interest	10,603	14,856	10,766	13,431
PIK interest accrued	494	692	460	574
Cash interest accrued	2,640	3,699	2,229	2,781
Finance lease creditors	573	803	704	878
	£ 89,553	$ 125,474	£ 86,962	$ 108,486

Our long-term debt consists of senior bank debt and a revolving credit facility.

The Company has bank facilities of £90.0 million (equivalent to approximately $126.1 million), consisting of a senior term loan facility of £72.5 million (equivalent to approximately $101.6 million) and a revolving credit facility of £17.5 million (equivalent to approximately $24.5 million). As of March 31, 2018 and March 31, 2017, the Company had aggregate borrowings under the term loan facility of £72.5 million (equivalent to $101.6 million) and £72.5 million (equivalent to $90.4 million), respectively. The term loan facility imposes a cash interest rate on outstanding borrowings equal to the base rate margin of 7.00% per annum, plus the higher of 3.00% and LIBOR. The current rate at which cash interest accrues is 10.00% per annum. The Company had interest accruals of £2.6 million (equivalent to $3.7 million) and £2.2 million (equivalent to $2.8 million) at March 31, 2018 and March 31, 2017, respectively. In addition, the term loan facility imposes PIK interest at a rate of 7.00% per annum on the outstanding borrowings, which amount is added to the total principal outstanding. The Company had PIK interest accruals of £0.5 million (equivalent to $0.7 million) and £0.5 million (equivalent to $0.6 million) at March 31, 2018 and March 31, 2017, respectively. The term loan facility is scheduled to mature on September 30, 2019.

As of March 31, 2018 and March 31, 2017, the Company had aggregate borrowings under the revolving credit facility of £12.3 million (equivalent to $17.3 million) and £11.0 million (equivalent to $13.7 million), respectively. The revolving credit facility imposes a cash interest rate on outstanding borrowings equal to the base rate margin of 5.00% per annum, plus LIBOR. The current rate at which cash interest accrues is 5.50% per annum. In addition, a commitment fee is payable with respect to unutilized borrowing capacity at a rate of 2.00% per annum. The revolving credit facility is scheduled to mature on June 30, 2019. In addition to the revolving credit facility borrowings described above, further amounts under the facility have been used for the Company's VAT Duty Deferment guarantee and the Company's credit card program. The amounts so used as of March 31, 2018 and March 31, 2017 were $0.3 million and $0.4 million, respectively.

Debt issuance fees were capitalized at the time the debt was issued. As at March 31, 2018 and March 31, 2017, the amount of debt issuance fees capitalized was $0 and $0.6 million, respectively.

Debt Covenants

Under our debt facilities, we are subject to covenant testing at quarterly intervals. The covenant testing is set at the level of DMWSL 631 Limited, an intermediate holding company above all trading companies, and consists of tests on Leverage (Net Debt/EBITDA), Interest Cover (EBITDA/Interest Costs) and Super Senior Leverage (Net Debt + Revolver/EBITDA). These are measured under UK generally accepted accounting principles. In addition to the quarterly tests, there is an annual requirement that no more than £3 million be spent on non-machine capital additions, excluding labor capitalization.

All of our operations are included within the DMWSL 631 Limited group, except for certain overhead and director fees and expenses, non-recurring costs relating to the Business Combination and the movement in stock-based compensation expense and fair values on earnout and derivative liabilities. The costs of these items in the six months ended March 31, 2018 were $3.0 million, $0.6 million and -$7.5 million, respectively, and in the six months ended March 31, 2017 were $1.4 million, $4.5 million and $1.9 million, respectively.

There have been no breaches of the debt covenants in the periods ended March 31, 2018 and March 31, 2017.

Liens and Encumbrances

Our senior bank debt is secured by the imposition of a fixed and floating charge in favor of the lender over all the assets of the Company and certain of the Company's subsidiaries.

Contractual Obligations

As of March 31, 2018, our contractual obligations were as follows:

Contractual Obligations (in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating activities					
Interest on long term debt	$ 22,059	$ 11,625	$ 10,434	$ 0	$ 0
Financing activities					
Revolver repayment	17,262	17,262	0	0	0
Senior bank debt - principal repayment	101,580	0	101,580	0	0
Senior bank debt - compounded PIK debt interest	28,409	0	28,409	0	0
Finance lease payments	803	527	276	0	0
Interest on non-utilization fees	726	483	243	0	0
	$ 170,839	$ 29,897	$ 140,942	$ 0	$ 0

Off-balance sheet financing arrangements

As of March 31, 2018, there were no off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies

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

Please refer to our Annual Report on Form 10-K filed with the SEC on December 4, 2017, for a further discussion of our critical accounting policies. During the six months ended March 31, 2018, there were no material changes to these policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We have credit facilities that are subject to the risk of higher interest charges associated with increases in interest rates. As of March 31, 2018, we had £72.5 million ($101.6 million) of senior bank debt and £10.6 million ($14.9 million) of capitalized PIK debt interest that is subject to a floating interest rate charge that can vary with the LIBOR rate if this rate increases over a level of 3%. Due to the current rates of LIBOR, if floating interest rates increased by 1%, there would be no impact on the interest expense. If the floating interest rates increased by 5%, the additional interest charge would be approximately $1.4 million.

Foreign Currency Exchange Rate Risk

Our operations are conducted in various countries around the world and we receive revenue and pay expenses from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in (i) currencies other than GBP, which is our functional currency, or (ii) the functional currency of our subsidiaries, which is not necessarily GBP. Excluding intercompany balances, our Euro functional currency net assets total approximately $7.7 million and our US Dollar functional currency net liabilities total approximately $11.5 million. We use a sensitivity analysis model to measure the impact of a 10% adverse movement of foreign currency exchange rates against the US Dollar. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of March 31, 2018 would result in translation adjustments of approximately $0.9 million and $1.6 million, respectively, recorded in other comprehensive loss.

Included within our trading results are earnings outside of our functional currency. Retained earnings earned in Euros and in US Dollars in the six months ended March 31, 2018 were €1.2 million and $3.4 million, respectively. A hypothetical 10% adverse change in the value of the Euro and the US Dollar relative to GBP as of March 31, 2018 would result in translation adjustments of approximately $0.1 million and $0.3 million, respectively, recorded in trading operations.

The majority of the group's trading is in GBP, the functional currency, although the reporting currency of the group is the US Dollar. As such, changes in the GBP: USD exchange rate have an effect on the group's results. A 10% weakening of GBP against the US Dollar would change the trading operational results by approximately $0.9 million and would result in translation adjustments of approximately $0.1 million, recorded in other comprehensive loss.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer (together, the "Certifying Officers"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of March 31, 2018, the end of the period covered by this Report.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

As previously disclosed, on June 30, 2017, Martin E. Schloss, the former Executive Vice President, General Counsel and Secretary of the Company, filed a lawsuit in the Supreme Court of the State of New York, County of New York, naming as defendants the Company and A. Lorne Weil, seeking damages as a result of his services not continuing beyond the Business Combination. In March 2018, this matter was settled by the parties.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business and Industry

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

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

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

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

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

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

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

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

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

Certain key customers, including certain UK, Italian and Greek SBG terminal customers and certain Virtual Sports customers, make a significant contribution to our revenues and profitability. Our top ten customers generated 70% of total revenues in the three and six months ended March 31, 2018. During the three months ended March 31, 2018, there were three customers that represented at least 10% of our revenues, accounting for 23%, 19% and 15% of the Company's revenues, respectively. During the six months ended March 31, 2018, there were three customers that represented at least 10% of our revenues, accounting for 25%, 15% and 14% of the Company's revenues, respectively. We expect that these customers will continue to represent a significant portion of our sales in the future. However, the loss of any of our top customers, whether through contract expiry and non-renewal, breach of contract or other adverse factors could materially adversely affect our revenues or return on capital and leave us with surplus terminals. Moreover, if any of these customers experience reduced revenue, such reduction could adversely affect any revenue-sharing arrangements we have with those customers, reduce our own revenues and adversely affect our financial results.

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

We have achieved significant cost savings through our centralization of equipment and non-equipment purchases. However, as a result, we are exposed to the credit and other risks of a group of key suppliers. While we make every effort to evaluate our counterparties prior to entering into long-term and other significant procurement contracts, we cannot predict the impact on our suppliers of the current economic environment and other developments in their respective businesses. Insolvency, financial difficulties 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 and other concerns.

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

Our SBG terminal contracts in the UK, Italy and Greece often require significant up-front capital expenditures for terminal assembly, software customization and implementation, systems and equipment installation and telecommunications configuration. Historically, we have funded these up-front costs through cash flows generated from operations and borrowings under our credit facilities. 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.

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

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

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

There can be no assurance that our business activities, games, products and systems will not infringe upon, misappropriate of 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.

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

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

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

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

We supply certain of our products to operators who operate gaming websites. Some of those operators may take bets from customers in markets where no gaming laws or regulations exist and where the provision of online gaming is effectively unregulated. Although the Company seeks to ensure that its customers only take bets in markets where online gaming is legal, if any of those operators is subjected to investigatory or enforcement action for acting otherwise, this could result in the operator suffering interventions ranging from special conditions being applied to its licenses, license suspension or license loss, or the operator otherwise withdrawing from or curtailing its activities in its market. Any such developments could adversely affect such operator's revenues and in turn adversely affect our earnings from such operator. The Company may itself be subject to investigatory or enforcement action (if and to the extent that local laws or the laws of other jurisdictions in which the Company operates impose liability on suppliers for the activities of the customers that they supply or for receiving funds that are deemed to be illegal because of such activities). We seek to protect ourselves against any such liability for the activities of the operators that we supply, including by contractually requiring those operators not to operate in certain territories and only supplying operators who we have reviewed to determine whether they uphold the requisite standards of regulatory and legal compliance. Nonetheless, there is a risk that we may fail to undertake sufficient due diligence, fail to receive accurate information on which to conduct due diligence, or become subject to investigatory or enforcement action should we or any of our customers be accused of breaching any regulations or laws. Any such action may adversely affect our standing with gaming regulators and our ability to obtain and retain required licenses and other approvals in other jurisdictions.

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

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

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

We are subject to the provisions of the UK Bribery Act 2010, the U.S. Foreign Corrupt Practices Act and other anti-corruption laws. The UK Bribery Act generally prohibits giving a financial or other advantage to another person with the intention of inducing that person to improperly perform a relevant function or activity. The U.S. Foreign Corrupt Practices Act generally prohibits U.S. persons and companies and their agents from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business. Certain of these anti-corruption laws also contain provisions that require accurate record keeping and further require companies to devise and maintain an adequate system of internal accounting controls. 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.

A determination by the UK Government to substantially reduce maximum permitted bets on certain gaming machines in the UK could have a material negative impact on our business.

On October 31, 2017, the UK Government's Department for Digital, Culture, Media and Sport released a written consultation document, seeking written public responses to proposals it set forth in the document for changes to gaming machine regulations and other related regulatory matters. Responses were due by January 23, 2018. The UK Government is expected to take action in the near future with respect to some or all of the proposals raised in the consultation document or in the responses it receives to the document. The consultation and any UK Government action that follows represent the expected culmination of the triennial review of gaming regulation commenced by the UK Government in October 2016.

The UK Government's principal proposal in the consultation document is to reduce the maximum permitted betting stake for players of B2 gaming machines (also known as Fixed-Odd Betting Terminals, or FOBTs) from the current £100 to either £50, £30, £20 or £2, and also to introduce other measures intended to protect players. A reduction of the maximum permitted B2 betting stake, or the introduction of other player protection measures, could adversely affect players' interest in and use of B2 gaming machines; the total stakes wagered on such machines; the earnings made by operators who offer such machines at their betting locations; the portion of operators' revenues that we receive under total revenue-sharing contracts and SBG revenue-sharing contracts that we have with such operators; and demand for the supply of such machines in the future. A significant portion of our SBG revenue is derived from our revenue-sharing arrangements with customers who operate our SBG terminals as B2 gaming machines. Therefore, if the maximum permitted B2 betting stake is reduced, or if other player protection measures are introduced, and any of the foregoing potential adverse consequences were to result, there could be a material adverse effect on our SBG revenues and consequently on our overall business.

Because it is unknown when the UK Government may take action to reduce the maximum permitted B2 betting stake or introduce other player protection measures; what reduced level of maximum permitted betting stake may be imposed; what additional player protection measures may be introduced; and when such changes would come into force, there can be no assurance as to the extent to which any such changes would affect our earnings or our business generally. Although a reduction of the maximum permitted betting stake to £50 might not have a substantial adverse effect on our earnings; a reduction to £30 could reduce our earnings by a substantial portion and could have a material adverse effect on our results of operations, cash flows and financial condition, and, in isolation, absent growth elsewhere, a reduction to £2 would reduce our earnings significantly and would likely have a material adverse effect on our results of operations, cash flows and financial condition, at least in the short term. In all events, we currently expect that we would not experience material effects, if any, from any betting stake reduction until our 2019 fiscal year, and that during the period of time between the UK Government's announcement of a reduction and its imposition, we could begin taking measures intended to mitigate the effects of the reduction.

For the foregoing reasons, although we currently expect that a reduction in the maximum B2 betting stake or the introduction of other player protection measures may have at least some degree of adverse effect on our business, there can be no assurance as to when any such changes will be imposed or when, how and to what extent such changes would affect our business, but any such changes could have a material adverse effect on our results of operations, cash flows and financial condition.

Our business is subject to evolving technology.

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

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

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

We believe that our success depends, in significant part, on providing secure products and systems to our vendors and customers with high levels of uptime, quality and availability. Attempts to penetrate security measures may come from various combinations of customers, retailers, vendors, players, employees and others. Our ability to monitor and ensure quality of our products is periodically 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 periodically 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, Greece and other markets where we are active. There can be no assurance that this opposition will not succeed in preventing the legalization of gaming in jurisdictions where these activities are presently prohibited or prohibiting or limiting the expansion or continuance of gaming where it is currently permitted, in either case to the detriment of our business, financial condition, results and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are a global business and derive substantially all of our revenue outside the United States. For the six months ended March 31, 2018, we earned approximately 65.6% of our revenue in the UK, 14.3% in Greece, 13.1% in Italy and the remaining 7.1% across the rest of the world. Our business in foreign markets subject us to risks customarily associated with such operations, including:

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

- the complexity of foreign laws, regulations and markets;
- the impact of foreign labor laws and disputes;
- potential risks relating to our ability to manage our foreign operations, monitor our customers' activities or our partners' activities which may subject us to risks involving such other entities' financial condition or to inconsistent interests or goals;
- the impact of price controls, capital controls and any local difficulties in collecting accounts receivable and transferring earnings to other jurisdictions, including, without limitation, the impact of the capital controls imposed in Greece in 2015 as a consequence of its financial crisis, which can complicate and delay our transfer of earnings out of Greece;
- recent unexpected 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 USD, and from the translation of foreign currency balance sheet accounts into GBP-denominated or USD-denominated balance sheet accounts. Exposure to currency exchange rate fluctuations exists and will continue because a significant portion of our revenues are denominated in currencies other than the USD, particularly GBP and the Euro. Exchange rate fluctuations have in the past adversely affected operating results and cash flows and may continue to adversely affect results of operations and cash flows and the value of assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends upon our key personnel.

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

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

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

Restrictions in our existing credit agreement, 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 credit agreement, or any future credit facility or other indebtedness we 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 credit agreement or other debt instruments may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our credit agreement, any future credit facility or other debt instruments could result in a default or an event of default that could enable our lenders or other debt holders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full.

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

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

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

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

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

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

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

We currently face legal, accounting, administrative and other costs and expenses applicable to a U.S. public company that Inspired Gaming Group did not incur as a private company. In addition, Inspired Gaming Group had been a private company with limited accounting personnel and other related resources and will need to add personnel in areas such as accounting, financial reporting, investor relations and legal that are needed in connection with our operations as a public company. We incurred incremental costs related to operations as a public company of approximately $3.0 million for the six months ended March 31, 2018 (excluding stock-based compensation). We expect to incur incremental costs related to operating as a public company of approximately $5.0 million annually, excluding stock based compensation cost, although there can be no assurance that these costs will not be higher, particularly when we no longer qualify as an emerging growth company. Our company is subject to the reporting requirements of the Exchange Act, which requires us to file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, the Public Company Accounting Oversight Board (the "PCAOB") and Nasdaq, each of which imposes additional reporting and other obligations on public companies. Our senior management may not be able to maintain programs and policies in an effective and timely manner that adequately respond to such increased legal, regulatory compliance and reporting requirements, including maintaining effective internal controls over financial reporting. Our compliance with existing and evolving regulatory requirements results in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

Material weaknesses in our internal control over financial reporting could result in a failure to prevent, or to detect or correct on a timely basis, material misstatements in the financial statements of the Company, and could have an adverse effect on the price of our common stock.

Certain material weaknesses in our internal control over financial reporting were identified in connection with the preparation of the audits of the consolidated financial statements of our non-U.S. subsidiaries in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), for the periods ended September 24, 2016, September 26, 2015 and September 27, 2014. These weaknesses have been remediated. Nevertheless, we enter into transactions that are complex and whose accounting treatment under U.S. GAAP requires extensive knowledge of U.S. GAAP and financial reporting disclosure requirements. No assurance can be given that our internal control over financial reporting will be sufficient to prevent recurring or additional material weaknesses in future periods. If material weaknesses are discovered in the future, we may fail to meet our future reporting obligations in a timely and reliable manner and our financial statements could contain material misstatements. Any such failure could adversely affect business and the price 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.

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

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

An active trading market for our securities may not continue, which would adversely affect the liquidity and price of our securities.

An active trading market for our securities may not be sustained. In addition, the price of our securities can vary due to general economic conditions and forecasts, our general business condition and the release of our financial reports. Depending on the number of shares you hold and other factors, you may not be able to sell your shares at the times you prefer at desirable market prices.

Our warrants transitioned from NASDAQ to the over-the-counter markets operated by OTC Markets Group in April 2017, as a result of the Company having less than 400 round-lot warrant holders. The lack of a stock exchange listing may limit investors' ability to effect transactions in our publicly traded warrants.

In September 2017, we received confirmation from NASDAQ that we were in compliance as to the minimum 300 round-lot shareholder requirement for our common stock. However, there can be no assurance that we will be able to maintain compliance with this or any other listing qualifications in the future.

Our publicly traded warrants could expire worthless, the terms could be amended and we may redeem our warrants at a time that is disadvantageous to you.

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

In addition, the warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval by the holders of at least 65% of the then outstanding warrants to make any change that adversely affects the interests of the registered holders. Accordingly, we may amend the terms of the warrants in a manner adverse to a holder if holders of at least 65% of the then outstanding warrants approve of such amendment. Examples of such amendments could be amendments to, among other things, increase the exercise price of the warrants, shorten the exercise period or decrease the number of shares of our common stock purchasable upon exercise of a warrant.

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

- to exercise their warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so;
- to sell their warrants at the then-current market price when they might otherwise wish to hold their warrants; or
- to accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, is likely to be substantially less than the market value of their warrants.

Certain private warrants are redeemable by us if they are no longer held by their initial purchasers or their permitted transferees.

Concentration of ownership of the Company may have the effect of delaying or preventing a change in control.

Our largest stockholder, Landgame S.à.r.l, holds approximately 28% of the outstanding common stock of the Company, and as a result has the ability to strongly influence the outcome of corporate actions of the Company requiring stockholder approval. In addition, Landgame S.à.r.l. is party to a stockholders agreement that provides it with the right to nominate two of the seven members of our board of directors. As a result, this stockholder has the ability to exert influence over our business and may make decisions with which other stockholders may disagree. In addition, under the same stockholders agreement, another one of our stockholders, Hydra Industries Sponsor LLC (the "Hydra Sponsor"), has the right to nominate one director, and affiliates of Macquarie Group Limited have the right, jointly with the Hydra Sponsor, to nominate two directors. Each of the foregoing stockholders also have rights to appoint more directors if the size of our board of directors is increased. As a result, each of these stockholders has the ability to exert influence over our business and may support or make decisions with which other stockholders may disagree. Moreover, the concentrations of ownership described above may have the effect of delaying or preventing a change of control and might adversely affect the market price of our common stock.

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting, and generally requires in the same report a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. The Company was required to provide management's attestation on internal controls effectiveness with respect to the year ended September 30, 2017. However, under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 until we are no longer an "emerging growth company." We could be an "emerging growth company" until the earlier of (1) the last day of the fiscal year (a) following October 29, 2019, the fifth anniversary of our initial public offering ("IPO"), (b) in which we have total annual gross revenue of at least $1.07 billion or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our prior second fiscal quarter, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

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

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

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

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

The price of our common stock may fluctuate significantly, and you could lose part or all of your investment.

The price of our securities may fluctuate significantly due to general market and economic conditions. In addition, the price of our securities can vary 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 outcome of the UK Government's ongoing triennial review of UK gaming regulation;
- 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.

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

The Company's lack of public company operating experience may make it difficult to forecast and evaluate our future prospects. If the Company is unable to execute its business strategy, either as a result of its inability to manage effectively its business in a public company environment or for any other reason, the Company's business, prospects, financial condition and operating results may be harmed.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If no securities or industry analysts commence coverage of 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.

If substantial numbers of shares of our common stock are sold by our stockholders in a short period of time, the market price of our common stock may decline.

If our stockholders sell substantial amounts of their shares of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of common stock could also depress our market price. We filed a registration statement that became effective in July 2017 and that currently covers the resale of approximately 11,000,000 shares of our outstanding common stock held by certain stockholders that may be sold in the public market, subject to applicable securities laws.

In addition, up to 2,500,000 additional shares of our common stock may be issued as earnout consideration pursuant to the terms of the Business Combination, and we have approximately 9,500,000 shares underlying outstanding warrants and 1,700,000 shares underlying outstanding awards of restricted stock units. The issuance and subsequent sale of such shares may cause the market price of our stock to decline.

A decline in the price of the shares of our common stock could impede our ability to raise capital through the issuance of additional shares or other equity securities. Moreover, any such decline could result in our common stock trading at prices significantly below the price you paid.

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. Any such dilution could cause a decline in the trading price of our common stock.

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

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

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

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

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

Risks Relating to Economic and Political Conditions

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

Our business relies on stable and efficient financial markets. Any disruption in the credit and capital markets could adversely impact our ability to obtain financing on acceptable terms. Volatility in the financial markets could also result in difficulties for financial institutions and other parties that we do business with, which could potentially affect the ability to access financing under existing arrangements. We are exposed to the impact of any global or domestic economic disruption, including any potential impact of the decision by the United Kingdom to exit the European Union and the sovereign debt crises in certain Eurozone countries where we do business. Our ability to continue to fund operating expenses, capital expenditures and other cash requirements over the long term may require access to additional sources of funds, including equity and debt capital markets, and market volatility and general economic conditions may adversely affect our ability to access capital markets. In addition, the inability of our vendors to access capital and liquidity with which to maintain their inventory, production levels and product quality and to operate their businesses, or the insolvency of our vendors, could lead to their failure to deliver merchandise. If we are unable to purchase products when needed, our sales could be materially adversely affected. Accordingly, volatility or disruption in the financial markets could impair our ability to execute our growth strategy and could have an adverse effect on the trading price of our common stock.

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

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

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

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

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

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

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

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

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

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1**	Certification of Principal Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2**	Certification of Principal Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

INSPIRED ENTERTAINMENT, INC.

Date: May 9, 2018	/s/ A. Lorne Weil Name: A. Lorne Weil Title: Executive Chairman (Principal Executive Officer)
Date: May 9, 2018	/s/ Stewart F.B. Baker Name: Stewart F.B. Baker Title: Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, A. Lorne Weil, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2018

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

EXHIBIT 31.2

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2018

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

Exhibit 32.1

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

In connection with the Quarterly Report of Inspired Entertainment, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, A. Lorne Weill, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: May 9, 2018

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

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

Exhibit 32.2

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

In connection with the Quarterly Report of Inspired Entertainment, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2018, as filed with the Securities and Exchange Commission (the “Report”), I, Stewart F.B. Baker, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: May 9, 2018

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

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