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, 2020

Commission File Number 001-38136

Accel Entertainment, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**98-1350261**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
140 Tower Drive	
Burr Ridge, Illinois	**60527**
(Address of Principal Executive Offices)	**(Zip Code)**

(630) 972-2235
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbols	Name of Each Exchange on Which Registered
Class A-1 Common Stock, par value $.0001 per share	ACEL	The New York Stock Exchange
Warrants, each whole Warrant exercisable for one share of Class A-1 common stock at an exercise price of $11.50 per share	ACEL-WS	The New York Stock Exchange

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

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

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

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

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

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

As of May 5, 2020, there were 78,256,623 shares outstanding of the registrant's Class A-1 Common Stock, par value $.0001 per share.

ACCEL ENTERTAINMENT, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2020

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ACCEL ENTERTAINMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2020	**2019**
Revenues:		
Net video gaming	$ 101,575	$ 94,175
Amusement	1,692	1,438
ATM fees and other revenue	1,961	1,812
Total net revenues	105,228	97,425
Operating expenses:		
Video gaming expenses	67,980	61,621
General and administrative	23,468	16,124
Depreciation and amortization of property and equipment	4,867	6,041
Amortization of route and customer acquisition costs and location contracts acquired	5,565	4,303
Other expenses, net	1,204	616
Total operating expenses	103,084	88,705
Operating income	2,144	8,720
Interest expense	4,249	3,047
(Loss) income before income tax (benefit) expense	(2,105)	5,673
Income tax (benefit) expense	(139)	1,678
Net (loss) income	$ (1,966)	$ 3,995
Net (loss) income per common share:		
Basic [1]	$ (0.03)	$ 0.07
Diluted [1]	(0.03)	0.06
Weighted average number of shares outstanding:		
Basic [1]	78,003	57,588
Diluted [1]	78,003	61,948

(1) Per share and share amounts for 2019 have been retroactively restated to give effect to the reverse recapitalization that is discussed in Note 1.

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

ACCEL ENTERTAINMENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and share amounts)	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 166,538	$ 125,403
Prepaid expenses	4,243	4,151
Income taxes receivable	3,907	3,907
Investment in convertible notes (current)	14,000	11,000
Other current assets	6,286	7,034
Total current assets	194,974	151,495
Property and equipment, net	125,477	119,201
Other assets:		
Route and customer acquisition costs, net	17,078	17,399
Location contracts acquired, net	161,733	166,783
Goodwill	34,511	34,511
Investment in convertible notes, less current portion	16,000	19,000
Other assets	887	928
	230,209	238,621
Total assets	$ 550,660	$ 509,317
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of debt	$ 18,250	$ 15,000
Current portion of route and customer acquisition costs payable	1,717	1,700
Accrued location gaming expense	—	1,323
Accrued state gaming expense	339	7,119
Accounts payable and other accrued expenses	23,703	19,511
Current portion of consideration payable	3,127	10,293
Total current liabilities	47,136	54,946
Long-term liabilities:		
Debt, net of current maturities	384,838	334,692
Route and customer acquisition costs payable, less current portion	4,866	4,752
Consideration payable, less current portion	16,225	16,426
Deferred income tax liability	12,976	12,976
Total long-term liabilities	418,905	368,846
Stockholders' equity :		
Preferred Stock, par value of $0.0001; 1,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2020 and December 31, 2019	—	—
Class A-1 Common Stock, par value $0.0001; 250,000,000 shares authorized; 78,234,106 shares issued and outstanding at March 31, 2020; 76,637,470 shares issued and outstanding at December 31, 2019	8	8
Class A-2 Common Stock, par value $0.0001; 10,000,000 shares authorized; 3,403,363 shares issued and outstanding at March 31, 2020; 4,999,999 shares issued and outstanding at December 31, 2019	1	1
Additional paid-in capital	107,046	105,986
Accumulated deficit	(22,436)	(20,470)
Total stockholders' equity	84,619	85,525
Total liabilities and equity	$ 550,660	$ 509,317

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

ACCEL ENTERTAINMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(In thousands, except shares)	Class A-1 Common Stock [1]		Additional Paid-In	Treasury Stock [1]		Accumulated	Total Stockholders'
	Shares	Amount	Capital [1]	Shares	Amount	Deficit	Equity
Balance, January 1, 2019	58,491,281	$ 6	$ 80,146	(1,311,880)	$ (5,832)	$ (17,202)	$ 57,118
Exercise of warrants	495,030	—	334	46,409	227	—	561
Employee stock option compensation	—	—	128	—	—	—	128
Net income	—	—	—	—	—	3,995	3,995
Balance, 43555	58,986,311	$ 6	$ 80,608	(1,265,471)	$ (5,605)	$ (13,207)	$ 61,802

(1) Share amounts for 2019 have been retroactively restated to give effect to the reverse capitalization that is discussed in Note 1.

(In thousands, except shares)	Class A-1 Common Stock		Class A-2 Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 2020	76,637,470	$ 8	4,999,999	$ 1	$ 105,986	$ (20,470)	$ 85,525
Conversion of Class A-2 Common Stock to Class A-1 Common Stock	1,596,636	—	(1,596,636)	—	—	—	—
Stock-based compensation	—	—	—	—	1,060	—	1,060
Net loss	—	—	—	—	—	(1,966)	(1,966)
Balance, 43921	78,234,106	$ 8	3,403,363	$ 1	$ 107,046	$ (22,436)	$ 84,619

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

ACCEL ENTERTAINMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net (loss) income	$ (1,966)	$ 3,995
Non-cash items included in net (loss) income:		
Depreciation and amortization of property and equipment	4,867	6,041
Amortization of route and customer acquisition costs and location contracts acquired	5,565	4,303
Amortization of debt issuance costs	472	205
Stock-based compensation	1,060	128
(Gain) loss on disposal of property and equipment	(119)	(28)
Loss on write-off of route and customer acquisition costs and route and customer acquisition costs payable	291	89
Remeasurement of contingent consideration	(2,744)	86
Payments on consideration payable	(1,520)	—
Accretion of interest on route and customer acquisition costs payable, contingent consideration, and contingent stock consideration	604	162
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	656	(2,802)
Income taxes receivable	—	(589)
Route and customer acquisition costs	(426)	(536)
Route and customer acquisition costs payable	131	(25)
Accounts payable and accrued expenses	(11,260)	6,911
Other assets	40	(40)
Net cash (used in) provided by operating activities	(4,349)	17,900
Cash flows from investing activities:		
Purchases of property and equipment	(3,855)	(5,579)
Proceeds from the sale of property and equipment	121	28
Net cash used in investing activities	(3,734)	(5,551)
Cash flows from financing activities:		
Payments on term loan	(3,000)	—
Proceeds from delayed draw term loans	65,000	7,750
Payments on delayed draw term loans	(750)	(2,750)
Net payments on line of credit	(8,000)	(13,500)
Payments for debt issuance costs	(325)	—
Payments on consideration payable	(3,707)	(347)
Payments on capital lease obligation	—	(372)
Net cash provided by (used in) financing activities	49,218	(9,219)
Net increase in cash	41,135	3,130
Cash:		
Beginning of period	125,403	92,229
End of period	$ 166,538	$ 95,359
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest, net of amount of capitalized	$ 3,737	$ 2,670
Supplemental schedules of noncash investing and financing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	$ 7,290	$ 201

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

ACCEL ENTERTAINMENT, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Description of Business

Accel Entertainment, Inc. and its subsidiaries ("the Company") wholly owned subsidiary, Accel Entertainment Gaming LLC, is a terminal operator licensed by the State of Illinois Gaming Board since March 15, 2012. Its terminal operator license allows the Company to install and operate video gaming terminals in licensed video gaming locations throughout the State of Illinois as approved by individual municipalities. The Company also operates redemption terminals, which also function as automated teller machines ("ATMs") at its licensed video gaming locations, and amusement equipment at certain locations. The Company is subject to various federal, state and local laws and regulations in addition to gaming regulations. The terminal operator license, which is not transferable or assignable, requires compliance with applicable regulations and the license is renewable annually unless sooner cancelled or terminated.

The Company operates 11,164 and 7,935 video gaming terminals across 2,353 and 1,740 locations in the State of Illinois as of March 31, 2020 and 2019, respectively.

On November 20, 2019, the Company consummated a business combination which was accounted for as a reverse recapitalization. For more details on the reverse recapitalization, see Note 3 to the Company's Consolidated Financial Statements as presented in its Annual Report on Form 10-K for the year ended December 31, 2019. As a result of the reverse recapitalization, all references to numbers of common shares and per common share data for 2019 in these condensed consolidated financial statements and related notes have been retroactively adjusted to account for the effect of the reverse recapitalization.

The Company is an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 ("*JOBS Act*") following the consummation of the reverse recapitalization. The Company has elected to use this extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act and as a result of this election, its financial statements may not be comparable to companies that comply with public company effective dates. The Company will remain an "emerging growth company" until the earliest to occur of (i) the last day of the fiscal year (a) following June 30, 2022, (b) in which Accel has total annual gross revenue of at least $1.0 billion or (c) in which Accel is deemed to be a large accelerated filer, which means the market value of Class A-1 Shares that is held by non-affiliates exceeds $700 million as of the last business day of the prior second fiscal quarter, and (ii) the date on which Accel has issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Impact of COVID-19 on the Condensed Consolidated Financial Statements

In response the COVID-19 outbreak, the Illinois Gaming Board ("IGB") made the decision to shut down all video gaming terminals ("VGTs") across the State of Illinois starting at 9 PM on Monday March 16, 2020 and extended the shutdown through April 30, 2020 (see Note 17 for further updates). The temporary shutdown of Illinois video gaming impacted 15 of the 91 gaming days (or 16% of gaming days) during the three months ended March 31, 2020. In light of these events and their effect on the Company's employees and licensed establishment partners, the Company has taken action to position the Company to weather the temporary cessation of operations by, among other things, furloughing approximately 90% of its employees and deferring certain payments to major vendors. Additionally, members of the Company's senior management have decided to voluntarily forgo their base salaries during this COVID-19 pandemic.

As a result of these developments, the Company's revenues, results of operations and cash flows have been materially affected, and the Company expects it to continue for at least as long as these orders remain in effect. The situation is rapidly changing and additional impacts to the business may arise that the Company is not aware of currently. The Company cannot predict whether, when or the manner in which the conditions surrounding COVID-19 will change, including the timing of lifting any restrictions or closure

requirements, and the conditions under which customer re-engagement with its licensed establishment partners and VGTs will occur, if at all, and therefore, the impact to its results of operations, financial position and liquidity.

As part of the Company's analysis of the financial reporting impacts of the COVID-19 outbreak, and corollary response in the State of Illinois, including the temporary shutdown of our gaming operations, the Company evaluated its goodwill and long-lived assets for potential impairment triggers as of March 31, 2020. As a result of this analysis, no impairment losses were recorded. The Company will continue to monitor its assets for potential impairment losses in future periods. If the State of Illinois response continues for a more extended period, which is not currently anticipated, the Company could recognize impairment losses which could be material.

The Company also engaged a 3rd party valuation firm to assist in determining the fair value of its investment in convertible notes as of March 31, 2020. The valuation concluded that the carrying amount of the investment in the convertible notes approximates the fair value in all material respects, as of March 31, 2020.

Note 2. Summary of Significant Accounting Policies

Basis of presentation and preparation: The condensed consolidated financial statements and accompanying notes were prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). The condensed consolidated financial statements include the accounts of the Company and of its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the condensed consolidated financial statements include all recurring adjustments and normal accruals necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the dates and periods presented. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019. In preparing our condensed consolidated financial statements, we applied the same significant accounting policies as described in Note 2 to the consolidated financial statement in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Any significant changes to those accounting policies are discussed below. Interim results are not necessarily indicative of results for a full year.

Adopted accounting pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing revenue recognition guidance and creates a new topic for Revenue from Contracts with Customers. The guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance also substantially revises required interim and annual disclosures. The Company, as an Emerging Growth Company ("EGC"), elected to use the non-public effective date and adopted the standard in the fourth quarter of 2019 for the annual period ended December 31, 2019. The Company also elected the modified retrospective adoption approach and applied the standard to all contracts open as of January 1, 2019. The Company's quarterly financial statements and disclosure for the first three months of 2019 reflect the previous accounting standard of FASB ASC 605, *Revenue Recognition*, and will not be restated for the adoption of Topic 606. The cumulative impact of the new revenue standard for fiscal year 2019 was recorded in the fourth quarter of 2019 and reflects the adjustment as if the Company adopted the standard as of January 1, 2019. The timing and amount of revenue recognized by the Company did not change upon the adoption of the new standard, however the Company's accounting for route acquisition costs was impacted. Accounting Standards Codification (“ASC”) 340-40, Other Assets and Deferred Costs - Contracts With Customers (“ASC 340-40”), issued in conjunction with ASU 2014-09, provides updated guidance around accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfill a contract with a customer. ASC 340-40 states that an entity should amortize contract cost assets “on a systemic basis that is consistent with the transfer to the customer of the good or services to which the asset relates”, which typically corresponds to the period in which revenue will be recognized. The Company chose straight-line amortization of the contracts as it felt that best depicted when revenue would be recognized and when customers are visiting the gaming establishments.

When determining the appropriate amortization period under ASC 340-40, the Company evaluated the impact of any renewal clauses that are likely to be exercised. The Company focused on whether commissions paid for renewals were commensurate with commissions paid on the original contract. The Company determined the renewal commissions were not commensurate and the amortization period should include expected renewals. As such, the period over which route and customer acquisition costs are amortized was extended to include expected renewals which resulted in an increase to the average life to 12.4 years.

Use of estimates: The preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates used by the Company include, among other things, the useful lives for depreciable and amortizable assets, income tax provisions, the evaluation of the future realization of deferred tax assets, projected cash flows in assessing the initial valuation of intangible assets in conjunction with business acquisitions, the initial selection of useful lives for depreciable and amortizable assets in conjunction with business acquisitions, the valuation of level 3 investments, contingencies, and the expected term of share-based compensation awards and stock price volatility when computing share-based compensation expense. The Company also estimated stock prices prior to the reverse recapitalization discussed in Note 1 when computing share-based compensation expense. Actual results may differ from those estimates.

Change in estimate: During the first quarter of 2020, the Company conducted a review of its estimate of depreciable lives for its video gaming terminals and equipment. As a result of this review, the Company extended the useful lives of its video gaming terminals and equipment from 7 to 10 years as the equipment is lasting longer than originally estimated. The Company has many video gaming terminals and equipment that were purchased when the Company started operations that are still being used today. The impact of this change in estimate for the first quarter of 2020 was a net decrease in depreciation expense of $2.6 million, $2.4 million net of tax.

Segment information: The Company operates as a single operating segment. The Company's chief operating decision maker ("CODM") is the chief executive officer, who has ultimate responsibility for the operating performance of the Company and the allocation of resources. The CODM assesses the Company's performance and allocates resources based on consolidated results, and this is the only discrete financial information that is regularly reviewed by the CODM.

Cash and cash equivalents: Cash and cash equivalents include bank deposit accounts; term bank deposit accounts; uncollected cash in the Company's video gaming terminals, ATMs, and redemption terminals; and cash in Company vaults.

The Company's policy is to limit the amount of credit exposure to any one financial institution. The Company maintains its cash in accounts which may at times exceed Federal Deposit Insurance Corporation ("FDIC") insured limits. The Company has not experienced any losses in such accounts.

Property and equipment: Property and equipment are stated at cost or fair value at the date of acquisition. Maintenance and repairs are charged to expense as incurred. Major additions, replacements and improvements are capitalized. Spare parts are included in other current assets when acquired and are expensed when used to repair equipment. Depreciation has been computed using the straight-line method over the following estimated useful lives:

	Years
Video gaming terminals and equipment	10
Amusement and other equipment	7
Office equipment and furniture	7
Computer equipment and software	3-5
Leasehold improvements	5
Vehicles	5
Buildings and improvements	15-29

Leasehold improvements are amortized over the shorter of the useful life or the lease.

Development costs directly associated with the acquisition, development and construction of a project are capitalized as a cost of the project during the periods in which activities necessary to prepare the property for its intended use are in progress. Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. When no debt is incurred specifically for a project, interest is capitalized on amounts expended for the project using the weighted-average cost of borrowing. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed.

Stock-based compensation: The Company grants common stock options and/or restricted stock units to certain employees and officers. Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as general and administrative expense over the employee's requisite service period.

Recent accounting pronouncements*:* In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. In July 2018, the FASB also issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Company's fiscal year beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, unless the Company disqualifies as an emerging growth company, in which case earlier adoption may be required. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is assessing impact of the standard on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which intends to simplify the guidance by removing certain exceptions to the general principles and clarifying or amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Although the Company is currently evaluating the impact of the adoption of ASU 2019-12, the Company does not expect it to have a material impact on its condensed consolidated financial statements.

Note 3. Investment in Convertible Notes

On July 19, 2019, the Company entered into an agreement to purchase up to $30.0 million in convertible promissory notes that bear interest at 3% per annum from another terminal operator. The Company has the option of converting the notes to common stock of the terminal operator prior to the maturity date. At closing, the Company purchased a $5.0 million note which is subordinated to the terminal operator's credit facility and matures six months following the satisfaction of administrative conditions.

On October 11, 2019, the Company purchased an additional $25.0 million note which is also subordinated to the terminal operator's credit facility and, beginning on July 1, 2020, the balance of this note, if not previously converted, will be payable in equal $1,000,000 monthly installments until all principal has been repaid in full.

The carrying amount of the investment in the convertible notes approximates the fair value, in all material respects, as of March 31, 2020. For more information on how the Company determined the fair value of the convertible notes, see Note 10.

Note 4. Property and Equipment

Property and equipment consists of the following at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Video game terminals and equipment	$ 174,937	$ 166,850
Amusement and other equipment	17,615	16,417
Office equipment and furniture	1,590	1,540
Computer equipment and software	9,274	8,715
Leasehold improvements	44	44
Vehicles	10,200	9,304
Buildings and improvements	12,196	12,075
Land	911	911
Construction in progress	983	768
Total property and equipment	227,750	216,624
Less accumulated depreciation and amortization	(102,273)	(97,423)
Property and equipment, net	$ 125,477	$ 119,201

Depreciation and amortization of property and equipment amounted to $4.9 million, and $6.0 million for the three months ended March 31, 2020 and 2019, respectively.

Note 5. Route and Customer Acquisition Costs

The Company enters into contracts with third parties and licensed video gaming locations throughout the State of Illinois which allow the Company to install and operate video gaming terminals. When video gaming operations commence, payments are due monthly. Gross payments due, based on the number of live locations, are approximately $7.3 million and $7.4 million as of March 31, 2020 and December 31, 2019, respectively. Payments are due over varying terms of the individual agreements and are discounted at the Company's incremental borrowing rate associated with its long-term debt at the time the contract is acquired. The net present value of payments due is $6.6 million and $6.5 million as of March 31, 2020 and December 31, 2019, respectively, of which approximately $1.7 million and $1.7 million is included in current liabilities in the accompanying condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019, respectively. The route and customer acquisition cost asset is comprised of payments made on the contracts of $18.8 million and $18.7 million as of March 31, 2020 and December 31, 2019, respectively. The Company has upfront payments of commissions paid to the third parties for the acquisition of the customer contracts that are subject to a claw back provision if the customer cancels the contract prior to completion. The payments subject to a claw back are $2.1 million and $2.2 million as of March 31, 2020 and December 31, 2019, respectively.

Route and customer acquisition costs consist of the following at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Cost	$ 28,480	$ 28,501
Accumulated amortization	(11,402)	(11,102)
Route and customer acquisition costs, net	$ 17,078	$ 17,399

Amortization expense of route and customer acquisition costs was $0.4 million and $0.7 million for the three months ended March 31, 2020 and 2019, respectively. As previously mentioned, the Company's current year amortization expense is lower due to the adoption of ASC Topic 606 as the amortization period over which route and customer acquisition costs was extended to include expected renewals.

Note 6. Location Contracts Acquired

Location contract assets acquired in business acquisitions are recorded at acquisition at fair value based on an income approach. Location contracts acquired consist of the following at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020	December 31, 2019
Cost	$ 204,353	$ 204,353
Accumulated amortization	(42,620)	(37,570)
Location contracts acquired, net	$ 161,733	$ 166,783

Amortization expense of location contracts acquired was $5.1 million and $3.6 million, during the three months ended March 31, 2020 and 2019, respectively.

Note 7. Goodwill

On September 16, 2019, the Company acquired Grand River Jackpot which was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The excess of the purchase price over the tangible and intangible assets acquired and liabilities assumed has been recorded as goodwill of $34.5 million as of March 31, 2020 and December 31, 2019, of which $28.7 million is deductible for tax purposes.

As previously discussed in Note 1, the Company evaluated its goodwill for potential impairment triggers as of March 31, 2020. As a result of this analysis, no impairment losses were recorded.

The Company had no goodwill prior to the Grand River Jackpot acquisition.

Note 8. Debt

The Company's debt as of March 31, 2020 and December 31, 2019, consisted of the following (in thousands):

	March 31, 2020	December 31, 2019
2019 Senior Secured Credit Facility:		
Revolving credit facility	$ 50,500	$ 58,500
Term Loan	237,000	240,000
Delayed Draw Term Loan (DDTL)	124,250	60,000
Total debt	411,750	358,500
Less: Debt issuance costs	(8,662)	(8,808)
Total debt, net of debt issuance costs	403,088	349,692
Less: Current maturities	(18,250)	(15,000)
Total debt, net of current maturities	$ 384,838	$ 334,692

2019 Senior Secured Credit Facility

On November 13, 2019, in order to refinance its prior credit facility, for working capital and other general purposes from time to time, the Company entered into a credit agreement (the "Credit Agreement") as borrower, the Company and its wholly-owned domestic subsidiaries, as a guarantor, the banks, financial institutions and other lending institutions from time to time party thereto, as lenders, the other parties from time to time party thereto and Capital One, National Association, as administrative agent (in such capacity, the "Agent"), collateral agent, issuing bank and swingline lender, providing for a:

- $100.0 million revolving credit facility, including a letter of credit facility with a $10.0 million sublimit and a swing line facility with a $10.0 million sublimit,
- $240.0 million initial term loan facility and
- $125.0 million additional term loan facility.

As a result of the COVID-19 pandemic and the temporary shutdown of its operations by the IGB, the Company borrowed $65 million on its delayed draw term loan in March 2020 to increase its cash position and help preserve its financial flexibility.

As of March 31, 2020, there remained approximately $49.5 million of availability under the Credit Agreement.

The obligations under the Credit Agreement are guaranteed by the Company and its wholly-owned domestic subsidiaries, subject to certain exceptions (collectively, the "Guarantors"). The obligations under the Credit Agreement are secured by substantially all of assets of the Guarantors, subject to certain exceptions. Certain future-formed or acquired wholly owned domestic subsidiaries of the Company will also be required to guarantee the Credit Agreement and grant a security interest in substantially all of its assets (subject to certain exceptions) to secure the obligations under the Credit Agreement.

Borrowings under the Credit Agreement bear interest, at the Company's option, at a rate per annum equal to either (a) the adjusted LIBOR rate ("LIBOR") (which cannot be less than zero) for interest periods of 1, 2, 3 or 6 months (or if consented to by (i) each applicable Lender, 12 months or any period shorter than 1 month or (ii) the Agent, a shorter period necessary to ensure that the end of the relevant interest period would coincide with any required amortization payment) plus the applicable LIBOR margin or (b) the alternative base rate ("ABR") plus the applicable ABR margin. ABR is a fluctuating rate per annum equal to the highest of (i) the Federal Funds Effective Rate plus 1/2 of 1.0%, (ii) the prime rate announced from time to time by Capital One, National Association and (iii) LIBOR for a 1-month Interest Period on such day plus 1.0%. The Credit Agreement also includes provisions for determining a replacement rate when LIBOR is no longer available. As of March 31, 2020, the weighted-average interest rate was approximately 4.1%.

Interest is payable quarterly in arrears for ABR loans, at the end of the applicable interest period for LIBOR loans (but not less frequently than quarterly) and upon the prepayment or maturity of the underlying loans. The Company is required to pay a commitment fee quarterly in arrears in respect of unused commitments under the revolving credit facility and the additional term loan facility. Additionally, the Company is required to pay an upfront fee with respect to any funded additional term loans.

The applicable LIBOR and ABR margins and the commitment fee rate are calculated based upon the first lien net leverage ratio of the Company and its restricted subsidiaries on a consolidated basis, as defined in the Credit Agreement. Until the delivery of the initial financial statements under the Credit Agreement, the revolving loans and term loans bear interest, at the option of the Company, at either (a) ABR plus a margin of 1.25% or (b) LIBOR plus a margin of 2.25%.

The additional term loan facility is available for borrowings until November 13, 2020. Each of the revolving loans and the term loans mature on November 13, 2024.

The term loans and, once drawn, the additional term loans will amortize at an annual rate equal to approximately 5.00% per annum. Upon the consummation of certain non-ordinary course asset sales, the Company may be required to apply the net cash proceeds thereof to prepay outstanding term loans and additional term loans. The loans under the Credit Agreement may be prepaid without premium or penalty, subject to customary LIBOR “breakage” costs.

The Credit Agreement contains certain customary affirmative and negative covenants and events of default, and requires the Company and certain of its affiliates obligated under the Credit Agreement to make customary representations and warranties in connection with credit extensions thereunder.

In addition, the Credit Agreement requires the Company to maintain (a) a ratio of consolidated first lien net debt to consolidated EBITDA no greater than 4.50 to 1.00 and (b) a ratio of consolidated EBITDA to consolidated fixed charges no less than 1.20 to 1.00, in each case, tested as of the last day of each full fiscal quarter ending after the Closing Date and determined on the basis of the four most recently ended fiscal quarters of the Company for which financial statements have been delivered pursuant to the Credit Agreement, subject to customary “equity cure” rights.

If an event of default (as such term is defined in the Credit Agreement) occurs, the lenders would be entitled to take various actions, including the acceleration of amounts due under the Credit Agreement, termination of the lenders’ commitments thereunder, foreclosure on collateral, and all other remedial actions available to a secured creditor. The failure to pay certain amounts owing under the Credit Agreement may result in an increase in the interest rate applicable thereto.

The Company was in compliance with all debt covenants as of March 31, 2020. Given the Company's assumptions about the future impact of COVID-19 on the gaming industry, which could be materially different due to the inherent uncertainties of future restrictions on the industry, the Company expects to remain in compliance with all debt covenants for the next 12 months. If the Company's assumptions about the future impact of COVID-19 on the gaming industry are materially different, there is a potential for a covenant breach.

Prior Credit Facility

The Company's Prior Credit Facility was a senior secured first lien credit facility, as amended, that consisted of a $125.0 million term loan, a contract draw loan facility of $170.0 million and a revolving credit facility of $85.0 million. Accel’s prior credit facility was with a syndicated group of banks with CIBC Bank USA, as administrative agent for the Lenders. Included in the revolving credit facility and contract draw loan were swing line sub-facilities of $5.0 million each.

The Prior Credit Facility was paid off with the proceeds from the 2019 Senior Secured Credit Facility.

Note 9. Business and Asset Acquisitions

2019 Business Acquisitions

Grand River Jackpot

On August 26, 2019, the Company entered into an agreement to acquire all issued and outstanding membership interests in Grand River Jackpot, LLC and subsidiaries ("Grand River"), a terminal operator licensed by the State of Illinois Gaming Board. On September 16, 2019, the Company completed its acquisition of Grand River. Grand River had 2,009 VGTs in over 450 licensed establishments. The Company completed this transaction in order to expand its presence within the State of Illinois.

The acquisition aggregate purchase consideration transferred totaled $113.7 million, which included: i) a cash payment made at closing of $100.0 million; ii) a subsequent cash payment of approximately $6.6 million for a working capital adjustment and; iii) contingent purchase consideration with an estimated fair value of $7.1 million. The contingent consideration represents two installment payments that are to be paid, up to a maximum amount, as follows: i) $2.5 million within 30 days following the one-year anniversary of the acquisition closing date and; ii) $7.0 million within 30 days following the three-year anniversary of the acquisition closing date. These payments are subject to adjustment based on certain performance measures included within the purchase agreement. The estimated fair value was determined based on the Company's expected probability of future payment, discounted using Grand River's weighted average cost of capital. The cash payment made at closing and subsequent working capital adjustment payment were both funded by the Company's credit facilities. In light of the temporary suspension of gaming by the IGB due to the COVID-19 pandemic, the Company reversed its contingent liability for the previously mentioned $2.5 million installment payment due 30 days following the one-year anniversary of the acquisition closing date in the first quarter of 2020.

The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The purchase price has been allocated to the tangible assets and identifiable intangible assets acquired and liabilities assumed based upon their estimated fair values. The excess of the purchase price over the tangible and intangible assets acquired and liabilities assumed has been recorded as goodwill. The Company's purchase price allocation was finalized in the first quarter of 2020 and the Grand River acquisition resulted in goodwill of $34.5 million as a result of a higher consideration multiple paid relative to prior similar acquisitions driven by maturity and quality of the operations and industry, including workforce and corresponding synergies, and is amortizable for income tax purposes.

The condensed consolidated statements of operations include $12.3 million of revenue and $0.9 million of net income attributable to operations of the 2019 business acquisition for the three months ended March 31, 2020.

2019 Asset Acquisition

On September 23, 2019, pursuant to the terms of an asset purchase agreement, the Company purchased from Illinois Gaming Systems, LLC ("IGS") terminal use agreements and equipment representing the operations of 139 video game terminals in 29 licensed establishments. The Company has accounted for this transaction as an asset acquisition. The purchase consideration consisted of: i) cash payment of $2.4 million paid at closing and; ii) note payable of $2.3 million issued at closing which was recorded in consideration payable. The asset acquisition costs were allocated to the following assets: i) video game terminals and equipment totaling $1.7 million and; ii) location contracts totaling $3.0 million. The note payable bore interest at 5% and was paid in full in March 2020.

Pro Forma Results

The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the three months ended March 31, 2019 as if the acquisition of Grand River had occurred as of January 1, 2018, after giving effect to certain purchase accounting adjustments. These amounts are based on available financial information of the acquiree prior to the acquisition date and are not necessarily indicative of what Company's operating results would have been had the acquisition actually taken place as of January 1, 2019. This unaudited pro forma information does not project revenues and net income post acquisition (in thousands).

	Three month ended 3/31/2019
Revenues	$ 112,476
Net income	5,169

Consideration Payable

The Company has a contingent consideration payable related to certain locations, as defined, in the respective acquisition agreement which are placed into operation during a specified period after the acquisition date. The fair value of contingent consideration is included in the consideration payable on the condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019. The contingent consideration accrued is measured at fair value on a recurring basis.

Current and long-term portions of consideration payable consist of the following at March 31, 2020 and December 31, 2019 (in thousands):

	March 31, 2020		December 31, 2019	
	Current	Long-Term	Current	Long-Term
TAV	$ 491	$ 3,470	$ 490	$ 3,497
Abraham	26	—	55	—
Fair Share Gaming	1,177	370	1,057	899
Family Amusement	394	2,835	293	2,815
Skyhigh	647	4,158	763	3,948
G3	312	127	2,952	154
Grand River	—	5,265	2,304	5,113
IGS	80	—	2,379	—
Total	$ 3,127	$ 16,225	$ 10,293	$ 16,426

Note 10. Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures,* establishes a framework for measuring fair value and the corresponding disclosure requirements around fair value measurements. This topic applies to all financial instruments that are being measured and reported on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the various methods including market, income and cost approaches are used. Based on these approaches, certain assumptions are utilized that the market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Valuation techniques are utilized that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, it is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the

quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Convertible promissory notes

In valuing it's convertible promissory notes at March 31, 2020 and December 31, 2019, the Company utilized a binomial lattice model in which a convertible instrument is split into two separate components: a cash-only (debt) component and an equity component. The binomial lattice trees are constructed using a methodology that assigns up and downward movement factors and probabilities based on rates of return, volatility, and time. It allows for the optional conversion features of the convertible promissory notes to be captured by determining whether conversion or continuing to hold is the most economically advantageous to the holder. Upon conversion, future values in the equity component are subject to only the risk-free rate, while the cash-only component associated with continuing to hold the debt instrument is subject to the selected risk-adjusted discount rate. Solving backwards through the trees associated with the equity component and the trees associated with the debt component yields an aggregate discounted value for each. The sum of these values yields the indicated fair value of the convertible promissory notes.

The discount rate is the risk-adjusted discount rate that is implied by the rate that allows the discounted cash flows with all terms and conditions modeled to equal the total cash consideration. As such, after modeling the features of convertible promissory notes as of the issuance date using the lattice model framework outlined above, the Company solved for the discount rate that resulted in a value for the note equal to the total cash consideration. The valuation of the Company's convertible promissory notes is considered to be a Level 3 fair value measurement as the significant inputs are unobservable and require significant judgment or estimation.

For interim periods, the Company evaluates the underlying assumptions used in the latest valuation and determines whether there have been any significant changes to those assumptions based on current events to determine if a revaluation is necessary. Based on the economic impacts of COVID-19, the Company engaged a 3rd party valuation firm to assist in determining the fair value of its investment in convertible notes as of March 31, 2020. The valuation concluded that the carrying amount of the investment in the convertible notes approximates the fair value in all material respects, as of March 31, 2020.

Contingent consideration

The following tables summarize the Company’s liabilities that are measured at fair value on a recurring basis (in thousands):

		Fair Value Measurement at Reporting Date Using		
	March 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent consideration	$ 12,162	$ —	$ —	$ 12,162

		Fair Value Measurement at Reporting Date Using		
	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent consideration	$ 17,327	$ —	$ —	$ 17,327

The Company uses a discounted cash flow analysis to determine the value of contingent consideration upon acquisition and updates this estimate on a recurring basis. The significant assumptions in the Company's cash flow analysis includes the probability adjusted projected revenues after state taxes, a discount rate as applicable to each acquisition, and the estimated number of locations that "go live" with the Company during the contingent consideration period. A hypothetical 1% increase in the applicable discount rate would decrease other expenses, net by approximately $0.2 million while a hypothetical 1% decrease in the applicable discount rate would increase other expenses, net by approximately $0.2 million.

Changes in the fair value of contingent consideration liabilities are classified within other expenses, net on the accompanying condensed consolidated statements of operations.

Note 11. Stockholders' Equity

As discussed in Note 1, on November 20, 2019, the Company, consummated a reverse recapitalization. Pursuant to the Certificate of Incorporation as amended on November 20, 2019 and as a result of the reverse recapitalization, the Company has retrospectively adjusted the shares issued and outstanding prior to November 20, 2019 to give effect to the exchange ratio used to determine the number of Class A-1 shares of common stock into which they were converted. Pursuant to the terms of the Company's Amended and Restated Certificate of Incorporation, the Company authorized and has available for issuance the following shares and classes of capital stock, each with a par value of $0.0001 per share: i) 1,000,000 shares of preferred stock; ii) 250,000,000 shares of Class A-1 Common Stock, ii) 10,000,000 shares of Class A-2 Common Stock.

Class A-1 Common Stock

The holders of the Class A-1 Common Stock are entitled to one vote for each share. The holders of Class A-1 Common Stock are entitled to receive dividends or other distributions when and if declared from time to time and share equally on a per share basis in such dividends and distributions subject to such rights of the holders of preferred stock.

Class A-2 Common Stock

The holders of the Class A-2 Common Stock do not have voting rights and are not entitled to receive or participate in any dividends or distributions when and if declared from time to time.

5,000,000 shares of Class A-2 Common Stock were issued with other consideration in conjunction with the reverse recapitalization, subject to the conditions set forth in a restricted stock agreement, which sets forth the terms upon which the Class A-2 Shares will be exchanged for an equal number of validly issued, fully paid and non-assessable Class A-1 Shares. The exchange of Class A-2 Shares for Class A-1 Shares will be subject to the terms and conditions set forth in the Restricted Stock Agreement, with such exchanges occurring in three separate tranches upon the satisfaction of the following triggers:

- Tranche I, equal to 1,666,666 Class A-2 Shares, will be exchanged for Class A-1 Shares if either (i) the EBITDA for the last twelve months ("*LTM EBITDA*") of the Company (as determined pursuant to the Restricted Stock Agreement) as of December 31, 2021, March 31, 2022 or June 30, 2022 equals or exceeds $132 million or (ii) the closing sale price of Class A-1 Shares on the New York Stock Exchange ("*NYSE*") equals or exceeds $12.00 for at least twenty trading days in any consecutive thirty trading day period;

- Tranche II, equal to 1,666,667 Class A-2 Shares, will be exchanged for Class A-1 Shares if either (i) the LTM EBITDA of the Company (as determined pursuant to the Restricted Stock Agreement) as of December 31, 2022, March 31, 2023 or June 30, 2023 equals or exceeds $152 million or (ii) the closing sale price of Class A-1 Shares on the NYSE equals or exceeds $14.00 for at least twenty trading days in any consecutive thirty trading day period; and
- Tranche III, equal to 1,666,667 Class A-2 Shares, will be exchanged for Class A-1 Shares if either (i) the LTM EBITDA of the Company (as determined pursuant to the Restricted Stock Agreement) as of December 31, 2023, March 31, 2024 or June 30, 2024 equals or exceeds $172 million or (ii) the closing sale price of Class A-1 Shares on the NYSE equals or exceeds $16.00 for at least twenty trading days in any consecutive thirty trading day period.

The Restricted Stock Agreement further provides that holders of Class A-2 Shares are not required to exchange such shares for Class A-1 Shares if, (x) prior to giving effect to exchanges pursuant to the triggers described above, such holder beneficially owns less than 4.99% of the issued and outstanding Class A-1 Shares, and (y) after giving effect to the exchanges pursuant to the triggers described above, such holder would beneficially own in excess of 4.99% of the issued and outstanding Class A-1 Shares. However, notwithstanding the limitation described in the previous sentence, if and when a holder of Class A-2 Shares has obtained all required gaming approvals from the applicable gaming authorities permitting such holder to beneficially own Class A-1 Shares in excess of 4.99%, then the Class A-2 Shares held by such holder which are subject to exchange shall immediately be exchanged for Class A-1 Shares without regard to the limitation.

On January 14, 2020, the market condition for the conversion of Tranche I was satisfied. However, as discussed above, no shareholder is permitted to own more than 4.99% of the issued and outstanding Class A-1 Shares after the conversion unless obtaining required gaming approvals from the applicable gaming authorities. In connection with the conversion, no gaming approvals were obtained. As a result, only 1,596,636 of the 1,666,667 Class A-2 shares were converted into Class A-1 shares.

Warrants

On January 31, 2013, the Company issued 253,575 warrants to certain individual shareholders as compensation for providing a personal guaranty for a revolving loan agreement. The warrants granted their holders the right to purchase the Company's Class A-1 Common Shares at the price of $17.80 per share anytime from January 31, 2013 through January 30, 2020. The warrants were classified as an equity instrument. As of March 31, 2020 and 2019, there were 0 and 159,075 shares of warrants outstanding. All warrants were exercised prior to the reverse recapitalization.

7,333,326 warrants to purchase shares of Class A-1 Common Stock were issued with other consideration prior to the reverse recapitalization (the "2019 Warrants"). As a part of the reverse recapitalization, 2,444,437 2019 warrants were canceled and reissued under the same terms and conditions to Accel legacy shareholders. Each warrant expires five years from issuance and entitles the holder to purchase one Class A-1 Share at an exercise price of $11.50 per share, subject to adjustments substantially similar to those applicable to the other outstanding warrants, at any time 30 days after the consummation of the reverse recapitalization.

The 2019 Warrants may be redeemed, at the option of the Company, ninety (90) days after they are first exercisable and prior to their expiration, at a price equal to a number of Class A-1 Stock determined by reference to the table below, based on the redemption date (calculated for purposes of the table as the period to expiration of the 2019 Warrants) and the "Fair Market Value" (the "Alternative Redemption Price") (as such terms are defined in the 2019 Warrant Agreement) provided that the last sales price of the Class A-1 Stock reported has been at least $10.00 per share, on the trading day prior to the date on which notice of the redemption is given, subject to certain terms of the 2019 Warrant Agreement.

In 2017, 15,000,000 warrants to purchase shares of Class A-1 Common Stock were issued ("Public Warrants"). Each warrant expires five years from issuance and entitles the holder to purchase one Class A-1 Share at an exercise price of $11.50 per share, subject to adjustments substantially similar to those applicable to the other outstanding warrants, at any time 30 days after the consummation of the reverse recapitalization.

The Public Warrants may be redeemed for cash at the option of the Company, at any time while they are exercisable and prior to their expiration, at the price of $0.01 per Public Warrant, provided that the last sales price of the Class A-1 Stock reported has been at least $18.00 per share, on each of twenty (20) trading days within the thirty (30) trading-day period ending on the third Business Day prior to the date on which notice of the redemption is given, subject to certain terms of the Public Warrant Agreement.

The Public Warrants may be redeemed, at the option of the Company, ninety (90) days after they are first exercisable and prior to their expiration, at a price equal to a number of Class A-1 Stock determined by reference to the table below, based on the redemption date (calculated for purposes of the table as the period to expiration of the Public Warrants) and the "Fair Market Value" (the "Alternative Redemption Price") (as such terms are defined in the Public Warrant Agreement) provided that the last sales price of the Class A-1 Stock reported has been at least $10.00 per share, on the trading day prior to the date on which notice of the redemption is given, subject to certain terms of the Public Warrant Agreement.

Redemption Date	Fair Market Value of Class A-1 shares								
(period to expiration of the New Accel Warrants)	$10	$11	$12	$13	$14	$15	$16	$17	$18
57 months	0.257	0.277	0.294	0.310	0.324	0.337	0.348	0.358	0.365
54 months	0.252	0.272	0.291	0.307	0.322	0.335	0.347	0.357	0.365
51 months	0.246	0.268	0.287	0.304	0.320	0.333	0.346	0.357	0.365
48 months	0.241	0.263	0.283	0.301	0.317	0.332	0.344	0.356	0.365
45 months	0.235	0.258	0.279	0.298	0.315	0.330	0.343	0.356	0.365
42 months	0.228	0.252	0.274	0.294	0.312	0.328	0.342	0.355	0.364
39 months	0.221	0.246	0.269	0.290	0.309	0.325	0.340	0.354	0.364
36 months	0.213	0.239	0.263	0.285	0.305	0.323	0.339	0.353	0.364
33 months	0.205	0.232	0.257	0.280	0.301	0.320	0.337	0.352	0.364
30 months	0.196	0.224	0.250	0.274	0.297	0.316	0.335	0.351	0.364
27 months	0.185	0.214	0.242	0.268	0.291	0.313	0.332	0.350	0.364
24 months	0.173	0.204	0.233	0.260	0.285	0.308	0.329	0.348	0.364
21 months	0.161	0.193	0.223	0.252	0.279	0.304	0.326	0.347	0.364
18 months	0.146	0.179	0.211	0.242	0.271	0.298	0.322	0.345	0.363
15 months	0.130	0.164	0.197	0.230	0.262	0.291	0.317	0.342	0.363
12 months	0.111	0.146	0.181	0.216	0.250	0.282	0.312	0.339	0.363
9 months	0.090	0.125	0.162	0.199	0.237	0.272	0.305	0.336	0.362
6 months	0.065	0.099	0.137	0.178	0.219	0.259	0.296	0.331	0.362
3 months	0.034	0.065	0.104	0.150	0.197	0.243	0.286	0.326	0.361
0 months	—	—	0.042	0.115	0.179	0.233	0.281	0.323	0.361

The exact Fair Market Value and Redemption Date (as defined) may not be set forth in the table above, in which case, if the Fair Market Value is between two values in the table or the Redemption Date is between two redemption dates in the table, the number of Class A-1 Stock to be issued for each 2019 Warrant redeemed will be determined by a straight-line interpolation between the number of shares set forth for the higher and lower Fair Market Values and the earlier and later redemption dates, as applicable, based on a 365-day year.

Note 12. Stock-based Compensation

The Company grants various types of stock-based awards. Stock compensation awards granted are valued on the date of grant and are expensed over the required service period. The Company previously adopted the 2011 Equity Incentive Plan of Accel Entertainment, Inc., and the 2016 Equity Incentive Plan of Accel Entertainment, Inc.

In conjunction with the closing of the reverse recapitalization, the Accel Entertainment, Inc. Long Term Incentive Plan (the "LTIP") was adopted. The LTIP provides for grants of a variety of awards to employees and non-employees for providing services to the Company, including, but not limited to: incentive stock options qualified as such under U.S. federal income tax laws, stock options that do not qualify as incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash incentive awards, and other stock-based awards. The Company has reserved, and in January 2020 registered, a total of 6,000,000 shares of Class A-1 common stock for issuance pursuant to the LTIP, subject to certain adjustments set forth therein. The term of any options to be granted are for a maximum of 10 years from the grant date. The exercise price of stock options shall not be less than 100% of the fair market value per share of common stock on the grant date.

Under the LTIP, the Company granted 1.2 million options to eligible officers and employees of the Company during the first quarter of 2020, which shall vest over a period of 5 years. During the first quarter of 2020, the Company also issued 1.3 million restricted stock units ("RSUs") to board of directors and certain employees, which shall vest over a period of 5 years for employees and a period of 1 year for board of directors. The estimated grant date fair value of the options and RSUs granted during the first quarter of 2020 totaled $17.6 million.

Stock-based compensation expense, which pertains to the Company's stock options and other equity awards, was $1.1 million and $0.1 for the three months ended March 31, 2020 and 2019, respectively, and is included within general and administrative expenses in the condensed consolidated statements of operations.

Note 13. Income Taxes

The Company recognized an income tax benefit of $0.1 million and income tax expense of $1.7 million during the three months ended March 31, 2020 and 2019, respectively.

The Company calculates its (benefit from) provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate to its year-to-date pretax book income or loss. The effective tax rate (income taxes as a percentage of income before income taxes) was 6.6% and 29.6% for the three months ended March 31, 2020 and 2019, respectively. The Company's effective income tax rate can vary from period to period depending on, among other factors, the business mix of our earnings; the amount of permanent tax adjustments related to the tax treatment of incentive stock options, transaction costs, and compliance with IRC section 162M; and the level of our tax credits.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law and authorizes more than $2 trillion to battle COVID-19 and its economic effects, including immediate cash relief for individual citizens, loan programs for small business, support for hospitals and other medical providers, and various types of economic relief for impacted businesses and industries. To date, the Company has not applied for any of the relief programs under the CARES Act but will continue to monitor the situation and evaluate any additional future legislation.

Note 14. Commitments and Contingencies

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business, including related to employment of professional and non-compete clauses and agreements. Other than settled matters explained as follows, these actions are in various stages, and no judgments or decisions have been rendered. Management, after reviewing matters with legal counsel,

believes that the outcome of such matters will not have a material adverse effect on the Company's financial position or results of operations.

Accel has been involved in a series of related litigated matters stemming from claims that Accel wrongly contracted with 10 different licensed establishments (the "Defendant Establishments") in 2012 in violation of the contractual rights held by J&J Ventures Gaming, LLC ("J&J"), as further described below.

On August 21, 2012, one of the Company's operating subsidiaries entered into certain agreements with Jason Rowell ("Rowell"), a member of Action Gaming LLC ("Action Gaming"), which was an unlicensed terminal operator that had exclusive rights to place and operate VGTs within a number of establishments, including the Defendant Establishments. Under agreements with Rowell, the Company agreed to pay him for each licensed establishment which decided to enter into exclusive location agreements with the Company. In late August and early September 2012, each of the Defendant Establishments signed separate location agreements with the Company, purporting to grant it the exclusive right to operate VGTs in those establishments. Separately, on August 24, 2012, Action Gaming sold and assigned its rights to all its location agreements to J&J, including its exclusive rights with the Defendant Establishments (the "J&J Assigned Agreements"). At the time of the assignment of such rights to J&J, the Defendant Establishments were not yet licensed by the Illinois Gaming Board ("IGB").

Action Gaming, J&J, and other parties, collectively, the Plaintiffs, filed a complaint against the Company, Rowell, and other parties in the Circuit Court of Cook County (the "Circuit Court"), on August 31, 2012, as amended on November 1, 2012, December 19, 2012, and October 3, 2013, alleging, among other things, that the Company aided and abetted Rowell in breaches of his fiduciary duties and contractual obligations with Action Gaming and tortiously interfered with Action Gaming's contracts with Rowell and agreements assigned to J&J. The complaint seeks damages and injunctive and equitable relief. On January 24, 2018, the Company filed a motion to dismiss for lack of subject matter jurisdiction, as further described below. On May 14, 2018, the Circuit Court denied the Company's motion to dismiss and granted a stay to the case, pending a ruling from the IGB on the validity of the J&J Assigned Agreements.

From 2013 to 2015, the Plaintiffs filed additional claims, including J&J Ventures Gaming, LLC et al. v. Wild, Inc. ("Wild"), in various circuit courts seeking declaratory judgements with a number of establishments, including each of the Defendant Establishments, requesting declarations that, among other things, J&J held the exclusive right to operate VGTs at each of the Defendant Establishments as a result of the J&J Assigned Agreements. The Company was granted leave to intervene in all of the declaratory judgments. The circuit courts found that the J&J Assigned Agreements were valid because each of the underlying location agreements were between an unlicensed establishment and an unlicensed terminal operator, and therefore did not constitute use agreements that were otherwise precluded from assignment under the IGB's regulations. Upon the Company's appeal, the Illinois Appellate Court, Fifth District (the "District Court"), vacated the circuit courts' judgments and dismissed the appeals, holding that the IGB had exclusive jurisdiction over the matter that formed the basis of the parties' claims, and declined to consider the merits of the parties' disputes. On September 22, 2016, and after the IGB intervened, the Supreme Court of Illinois issued a judgment in Wild, affirming the District Court's decision vacating the circuit courts' judgments for lack of subject matter jurisdiction and dismissing the appeals, determining that the IGB has exclusive jurisdiction to decide the validity and enforceability of VGT use agreements.

Between May 2017 and September 2017, both the Company and J&J filed petitions with the IGB seeking adjudication of the rights of the parties and the validity of the use agreements. Those petitions have been fully briefed and remain pending. There is no indication as to when the IGB will rule on the petitions. The Company does not have a present estimate regarding the potential damages, if any, that could potentially be awarded in this litigation and, accordingly, have established no reserves relating to such matters. There are also petitions pending with the IGB which could lead to the Company obtaining new locations.

On October 7, 2019, the Company filed a lawsuit in the Circuit Court of Cook County against Jason Rowell and other parties related to Mr. Rowell's breaches of his non-compete agreement with the Company. The Company alleged that Mr. Rowell and a competitor were working together to interfere with the Company's customer relationships. That lawsuit, which seeks equitable relief

and legal damages, has not yet been served. On November 7, 2019, Mr. Rowell filed a lawsuit in the Circuit Court of Cook County against the Company alleging that he had not received certain equity interests in the Company to which he was allegedly entitled under his agreement. The Company intends to defend itself against the allegations. The Company does not have a present estimate regarding the potential damages, nor does it believe any payment of damages is probable, and, accordingly, has established no reserves relating to these matters.

On July 2, 2019, Illinois Gaming Investors, LLC filed a lawsuit against the Company. The lawsuit alleges that a current employee of the Company violated his non-competition agreement with Illinois Gaming Investors, LLC, and together with the Company, wrongfully solicited prohibited licensed video gaming locations. The lawsuit on its face seeks damages of $10,000,000. The parties are engaging in discovery. The Company is in the process of defending this lawsuit, and has not accrued any amounts as losses related to this suit are not probable or reasonably estimable.

Note 15. Related-Party Transactions

Subsequent to the Company's acquisition of certain assets of Fair Share Gaming, LLC ("Fair Share") and G3 Gaming, LLC ("G3"), the sellers became employees of the Company. Consideration payable to the Fair Share seller was $1.5 million and $2.0 million as of March 31, 2020 and December 31, 2019, respectively. Payments to the Fair Share seller under the acquisition agreement were $0.2 million and $0.2 million during the three months ended March 31, 2020 and 2019, respectively. Consideration payable to the G3 sellers was $0.4 million and $3.1 million as of March 31, 2020 and December 31, 2019, respectively. Payments to the G3 seller under the acquisition agreement were $2.5 million and $0.0 million during the three months ended March 31, 2020 and 2019, respectively. Subsequent to the Fair Share acquisition, the seller of Fair Share joined the Company's Board of Directors.

The Company engaged Much Shelist, P.C. ("Much Shelist"), as its legal counsel for general legal and business matters. An attorney at Much Shelist is a related party to management of the Company. For the three months ended March 31, 2020 and 2019, Accel paid Much Shelist less than $0.1 million, and $0.1 million, respectively. These payments were included in general and administrative expenses within the condensed consolidated statements of operations.

Note 16. Earnings Per Share

As a result of the previously mentioned reverse recapitalization in Note 1, the Company has retrospectively adjusted the weighted average shares outstanding for the three months ended March 31, 2019 to give effect to the exchange ratio used to determine the number of Class A-1 shares of common stock into which they were converted.

The components of basic and diluted EPS were as follows for the three months ended March 31 (in thousands, except per share amounts):

	2020	2019
Net (loss) income	$ (1,966)	$ 3,995
Basic weighted average outstanding shares of common stock	78,003	57,588
Dilutive effect of stock-based awards for common stock	—	1,114
Dilutive effect of stockholder notes receivable for common stock	—	947
Dilutive effect of warrants for common stock	—	2,300
Diluted weighted average outstanding shares of common stock	78,003	61,948
Earnings (loss) per share:		
Basic	$ (0.03)	$ 0.07
Diluted	$ (0.03)	$ 0.06

Since the Company was in a net loss position for the three months ended March 31, 2020, there is no difference between basic and dilutive weighted average common stock outstanding.

Anti-dilutive stock-based awards, Class A-2 shares, and warrants excluded from the calculations of diluted EPS were 28,365,715, and 0 for the three months ended March 31, 2020 and 2019, respectively.

Note 17. Subsequent Events

On April 23, 2020, the governor of Illinois extended the state's stay-at-home order and the closure of non-essential businesses until May 30, 2020. In response, the IGB issued a press release on April 30, 2020, extending the suspension of all Illinois video gaming operations at all licensed establishments of any kind and all casino gambling operations until further notice. The IGB will continue to review current public health guidance and conditions to determine when and under what conditions statewide video gaming and casino gambling can safely resume.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019. This discussion and analysis should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", set forth in our Annual Report on Form 10-K for the year ended December 31, 2019.

Company Overview

We are a leading distributed gaming operator in the United States on an Adjusted EBITDA basis, and a preferred partner for local business owners in the Illinois market. Our business consists of the installation, maintenance and operation of video gaming terminals ("VGTs"), redemption devices that disburse winnings and contain automated teller machine ("ATM") functionality, and other amusement devices in authorized non-casino locations such as restaurants, bars, taverns, convenience stores, liquor stores, truck stops, and grocery stores, which are referred to collectively as "licensed establishments." We also operate stand-alone ATMs in gaming and non-gaming locations. Accel has been licensed by the Illinois Gaming Board ("IGB") since 2012 and holds a conditional license from the Pennsylvania Gaming Control Board ("PA Board"). We operate 11,164 video gaming terminals across 2,353 locations in the State of Illinois as of March 31, 2020.

Our gaming-as-a-service platform provides local businesses with a turnkey, capital efficient gaming solution. We own all of our VGT equipment and manage the entire operating process for our licensed establishment partners. We also offer our licensed establishment partners VGT solutions that appeal to players who patronize those businesses. We devote significant resources to licensed establishment partner retention, and seek to provide prompt, personalized player service and support, which we believe is unparalleled among other distributed gaming operators. Dedicated relationship managers assist licensed establishment partners with regulatory applications and compliance onboarding, train licensed establishment partners on how to engage with players and potential players, monitor individual gaming areas for compliance, cleanliness and comfort and recommend potential changes to improve both player gaming experience and overall revenue for each licensed establishment. We also provide weekly gaming revenue reports to our licensed establishment partners and analyze and compare gaming results within individual licensed establishment partners. This information is used to determine an optimal selection of games, layouts and other ideas to generate foot traffic for our licensed establishment partners with the goal of generating increased gaming revenue. Further, our in-house collections and security personnel provide highly secure cash transportation and vault management services. Our best-in-class technicians ensure minimal downtime through proactive service and routine maintenance.

In addition to our VGT business, we also install, operate and service redemption devices that have ATM functionality, stand-alone ATMs and amusement devices, including jukeboxes, dartboards, pool tables, pinball machines and other related entertainment equipment. These operations provide a complementary source of lead generation for our VGT business by offering a "one-stop" source of additional equipment for its licensed establishment partners.

Impact of COVID-19

The COVID-19 outbreak is having a significant impact on global markets as a result of supply chain and production disruptions, workforce restrictions, travel restrictions, reduced consumer spending and sentiment, amongst other factors, which are, individually or in the aggregate, negatively affecting the financial performance, liquidity and cash flow projections of many companies in the United States and abroad.

In response to the COVID19 outbreak, the IGB made the decision to shut down all VGTs across the State of Illinois starting at 9 PM on Monday March 16, 2020 and initially extended the shutdown through April 30, 2020. On April 23, 2020, the governor of Illinois extended the state's stay-at-home order and the closure of non-essential businesses until May 30, 2020. In response, the IGB

issued a press release on April 30, 2020, extending the suspension of all Illinois video gaming operations at all licensed establishments of any kind and all casino gambling operations until further notice. The IGB will continue to review current public health guidance and conditions to determine when and under what conditions statewide video gaming and casino gambling can safely resume.

The temporary shutdown of Illinois video gaming impacted 15 of the 91 gaming days (or 16% of gaming days) during the three months ended March 31, 2020. In light of these events and their effect on Accel's employees and licensed establishment partners, we have taken action to reduce our projected monthly cash expenses down to $2-$3 million during the shutdown to position us to weather the temporary cessation of operations by, among other things, furloughing approximately 90% of our employees and deferring certain payments to major vendors. Additionally, members of our senior management have decided to voluntarily forgo their base salaries during this COVID-19 pandemic.

As a result of these developments, our revenues, results of operations and cash flows have been materially affected, and we expect it to continue for at least as long as these orders remain in effect. The situation is rapidly changing and additional impacts to the business and financial results may arise that we are not aware of currently. We cannot predict whether, when or the manner in which the conditions surrounding COVID-19 will change, including the timing of lifting any restrictions or closure requirements, and the conditions under which customer re-engagement with our licensed establishment partners and VGTs will occur, if at all. As a result, we borrowed $65 million on our delayed draw term loan in March 2020 to increase our cash position and help preserve our financial flexibility.

Accel supports the decision to shut down all VGTs to protect the safety of our fellow Illinois citizens, as the health and safety of players and partner establishments is of paramount importance to us. In addition to our cash conservation measures, we have been in constant contact with our partner establishments and employees to keep them aware of current developments, and have been working with them through these difficult times. Accel intends to visit every gaming location to clean and sanitize the VGTs and the gaming area surrounding them prior to relaunching operations.

Components of Performance

Revenues

Net video gaming. Net video gaming revenue represents net cash received from gaming activities, which is the difference between gaming wins and losses. Net video gaming revenue includes the amounts earned by the licensed establishments and is recognized at the time of gaming play.

Amusement. Amusement revenue represents amounts collected from amusement devices operated at various licensed establishments and is recognized at the point the amusement device is used.

ATM fees and other revenue. ATM fees and other revenue represents fees charged for the withdrawal of funds from Accel's redemption devices and stand-alone ATMs and is recognized at the time of the ATM transaction.

Operating Expenses

Video gaming expenses. Gaming expenses consist of (i) a 33% tax on net video gaming revenue (such tax increased from 30% beginning on July 1, 2019) that is payable to the IGB, (ii) an administrative fee (0.8513% currently) payable to Scientific Games International, the third-party contracted by IGB to maintain the central system to which all VGTs across Illinois are connected and (iii) establishment revenue share, which is defined as 50% of gross gaming revenue after subtracting the tax and administrative fee.

General and administrative. General and administrative expenses consist of operating expense and general and administrative ("*G&A*") expense. Operating expense includes payroll and related expense for service technicians, route technicians, route security, and preventative maintenance personnel. Operating expense also includes vehicle fuel and maintenance, ATM and amusement commissions and fees, and non-capitalizable parts expenses. Operating expenses are generally proportionate to the number of licensed establishments and VGTs. G&A expense includes payroll and related expense for account managers, business

development managers, marketing, and other corporate personnel. In addition, G&A includes marketing, information technology, insurance, rent and professional fees.

Depreciation and amortization of property and equipment. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets. Leasehold improvements are amortized over the shorter of the useful life or the lease.

Amortization of route and customer acquisition costs and location contracts acquired. Route and customer acquisition costs consist of fees paid at the inception of contracts entered into with third parties and licensed video gaming establishments throughout the State of Illinois which allow Accel to install and operate video gaming terminals. The route and customer acquisition costs and route and customer acquisition costs payable are recorded at the net present value of the future payments using a discount rate equal to Accel's incremental borrowing rate associated with its long-term debt. Route and customer acquisition costs are amortized on a straight-line basis beginning on the date the location goes live and amortized over the estimated life of the contract, including expected renewals.

Location contracts acquired in a business combination are recorded at fair value and then amortized as an intangible asset on a straight-line basis over the expected useful life of 10 years.

Interest expense

Interest expense consists of interest on Accel's current and prior credit facilities, amortization of financing fees, and accretion of interest on route and customer acquisition costs payable. Interest on the current credit facility is payable monthly on unpaid balances at the variable per annum LIBOR rate plus an applicable margin, as defined under the terms of the credit facility, ranging from 1.75% to 2.75% depending on the first lien net leverage ratio. Interest on our prior credit facility was payable monthly on unpaid balances at the variable per annum LIBOR rate plus an applicable margin, as defined under the terms of the prior credit facility, ranging from 1.70% to 2.50% depending on the ratio of total net debt to EBITDA.

Income tax (benefit) expense

Income tax (benefit) expense consists mainly of taxes payable to national, state and local authorities. Deferred income taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of the assets and liabilities.

Results of Operations

The following table summarizes Accel's results of operations on a consolidated basis for the three months ended March 31, 2020 and 2019:

(in thousands, except %'s)	Three Months Ended March 31,		Increase / (Decrease)	
	2020	2019	Change ($)	Change (%)
Revenues:				
Net video gaming	$ 101,575	$ 94,175	$ 7,400	7.9 %
Amusement	1,692	1,438	254	17.7 %
ATM fees and other revenue	1,961	1,812	149	8.2 %
Total revenues	105,228	97,425	7,803	8.0 %
Operating expenses:				
Video gaming expenses	67,980	61,621	6,359	10.3 %
General and administrative	23,468	16,124	7,344	45.5 %
Depreciation and amortization of property and equipment	4,867	6,041	(1,174)	(19.4)%
Amortization of route and customer acquisition costs and location contracts acquired	5,565	4,303	1,262	29.3 %
Other expenses, net	1,204	616	588	95.5 %
Total operating expenses	103,084	88,705	14,379	16.2 %
Operating income	2,144	8,720	(6,576)	(75.4)%
Interest expense	4,249	3,047	1,202	39.4 %
(Loss) income before income tax (benefit) expense	(2,105)	5,673	(7,778)	(137.1)%
Income tax (benefit) expense	(139)	1,678	(1,817)	(108.3)%
Net (loss) income	$ (1,966)	$ 3,995	$ (5,961)	(149.2)%

Revenues

Total revenues for the three months ended March 31, 2020 were $105.2 million, an increase of $7.8 million, or 8.0%, compared to the prior year period. This growth was driven by an increase in net video gaming revenue of $7.4 million, or 7.9%, an increase in amusement revenue of $0.3 million, or 17.7% and an increase in ATM fees and other revenue of $0.1 million, or 8.2%. The increase in net video gaming revenue is partially attributable to the acquisition of Grand River Jackpot on September 16, 2019, which collectively contributed $12.3 million in net video gaming revenue to the above comparative increase. Excluding Grand River Jackpot, net video gaming revenue decreased in the first quarter of 2020 by $4.9 million, or 5.2%, compared to the prior period, largely attributable to the temporary shutdown of Illinois video gaming on March 16, 2020, due to the COVID-19 outbreak which impacted 15 of the 91 gaming days (or 16% of gaming days), partially offset by an increase in the number of licensed establishments and VGTs.

Video gaming expenses

Total video gaming expenses for the three months ended March 31, 2020 were $68.0 million, an increase of $6.4 million, or 10.3%, compared to the prior year period. The components of video gaming expenses as a percentage of revenue of 64.6% for the three months ended March 31, 2020 was slightly higher than the 63.2% for the three months ended March 31, 2019 due to the increase in the gaming tax from 30% to 33% on July 1, 2019. The increase of $6.4 million was the result of an increase in net video gaming revenue and corollary increase in gaming tax at a higher tax rate, as well as, establishment revenue share costs and required payments to the IGB's third-party system administrator.

General and administrative

Total general and administrative expenses for the three months ended March 31, 2020 were $23.5 million, an increase of $7.3 million, or 45.5%, compared to the prior year period. The increase was attributable to a $2.1 million increase in operating costs that increase variably based on the number of licensed establishments and VGTs, which includes increases in payroll and employee related expenses, licenses, permits and marketing expenses. We also experienced higher costs related to professional fees and stock-based compensation.

Depreciation and amortization of property and equipment

Depreciation and amortization of property and equipment for the three months ended March 31, 2020 was $4.9 million, a decrease of $1.2 million, or 19.4%, compared to the prior year period. The decrease in depreciation and amortization is the result of a change in estimate in which we extended the useful lives of our video gaming terminals and equipment from 7 to 10 years. The impact of this change in estimate for the first quarter of 2020 was a net decrease in depreciation expense of $2.6 million. Partially offsetting this decrease was an increased number of licensed establishments and VGTs. Depreciation and amortization as a percentage of revenue was 4.6% for the three months ended March 31, 2020 compared to 6.2% for the prior year period.

Amortization of route and customer acquisition costs and location contracts acquired

Amortization of route and customer acquisition costs and location contracts acquired for the three months ended March 31, 2020 was $5.6 million, an increase of $1.3 million, or 29.3%, compared to the prior year period. The increase is primarily attributable to our business and asset acquisitions and their related performance, partially offset by the favorable impact from the adoption of Topic 606 which increased the period over which route and customer acquisition costs are amortized to include expected renewals. Amortization of route and customer acquisition costs and location contracts acquired as a percentage of revenue was 5.3% for the three months ended March 31, 2020 compared to 4.4% for the prior year period.

Other expenses, net

Other expenses, net for the three months ended March 31, 2020 were $1.2 million, an increase of $0.6 million, or 95.5%, compared to the prior year period. Included in Other expenses, net for the three months ended March 31, 2020 were higher non-recurring, one-time expenses primarily attributable to non-capitalizable public offering costs and costs associated with COVID-19, partially offset by a favorable revaluation of consideration payable in connection with gaming acquisitions.

Interest expense

Interest expense for the three months ended March 31, 2020 was $4.2 million, an increase of $1.2 million, or 39.4%, compared to the prior year period primarily due to an increase in borrowings, partially offset by lower rates. For the three months ended March 31, 2020, the weighted average interest rate was approximately 4.1% compared to a rate of approximately 4.6% for the prior year period.

Income tax (benefit) expense

Income tax benefit for the three months ended March 31, 2020 was $0.1 million, a decrease of $1.8 million, or 108.3%, compared to the prior year period which had income tax expense of $1.7 million. The effective tax rate for the three months ended March 31, 2020 was 6.6% compared to 29.6% in the prior year period. The lower tax rate in the first quarter of 2020 was due to permanent differences related to stock options, transaction costs and executive compensation.

Key Business Metrics

Accel uses a variety of statistical data and comparative information commonly used in the gaming industry to monitor the performance of the business, none of which are prepared in accordance with GAAP, and therefore should not be viewed as indicators of operational performance. Accel's management uses this information for financial planning, strategic planning and employee compensation decisions. The key indicators include:

- Number of licensed establishments;
- Number of VGTs;
- Average remaining contract term (years); and
- Hold-per-day.

Number of licensed establishments

The number of licensed establishments is calculated based on data provided by Scientific Games, a contractor of the IGB. Terminal operator portal data is updated at the end of each gaming day and includes licensed establishments that may be temporarily closed but still connected to the central system. Accel utilizes this metric to continually monitor growth from organic openings, purchased licensed establishments, and competitor conversions. Competitor conversions occur when a licensed establishment chooses to change terminal operators.

Number of video game terminals (VGTs)

The number of VGTs in operation is based on Scientific Games terminal operator portal data which is updated at the end of each gaming day and includes VGTs that may be temporarily shut off but still connected to the central system. Accel utilizes this metric to continually monitor growth from existing licensed establishments, organic openings, purchased licensed establishments, and competitor conversions.

Average remaining contract term

Average remaining contract term is calculated by determining the average expiration date of all outstanding contracts with Accel's current licensed establishment partners, and then subtracting the applicable measurement date. The IGB limited the length of contracts entered into after February 2, 2018 to a maximum of eight years with no automatic renewals.

Hold-per-day

Hold-per-day is calculated by dividing the difference between cash deposited in all VGTs and tickets issued to players by the average number of VGTs in operation during the period being measured, and then dividing the calculated amount by the number of days in such period.

The following tables set forth information with respect to Accel's licensed establishments, number of VGTs, average remaining contract term and hold-per-day as of and for the three months ended March 31:

	As of and for the three months ended March 31		Increase / (Decrease)	
	2020	2019	Change $	Change %
Licensed establishments	2,353	1,740	613	35.2 %
Video gaming terminals	11,164	7,935	3,229	40.7 %
Average remaining contract term (years) [1]	7.0	7.4	(0.4)	(5.4)%
Hold-per-day [2]	$ 124	$ 134	$ (10)	(7.5)%

(1) Excluding the Grand River Jackpot acquisition, the Average remaining contract life was 7.2 years as of March 31, 2020.
(2) Excluding the Grand River Jackpot acquisition, Hold-per-day was $132 for the three months ended March 31, 2020. Hold per day for the three months ended March 31, 2020 is computed based on 76-eligible days of gaming (excludes 15 non-gaming days due to the IGB mandated COVID-19 shutdown).

Non-GAAP Financial Measures

Adjusted EBITDA and Adjusted net income are non-GAAP financial measures and are key metrics used to monitor ongoing core operations. Management of Accel believes Adjusted EBITDA and Adjusted net income enhance the understanding of Accel's underlying drivers of profitability and trends in Accel's business and facilitate company-to-company and period-to-period comparisons, because these non-GAAP financial measures exclude the effects of certain non-cash items or represent certain nonrecurring items that are unrelated to core performance. Management of Accel also believe that these non-GAAP financial measures are used by investors, analysts and other interested parties as measures of financial performance and to evaluate Accel's ability to fund capital expenditures, service debt obligations and meet working capital requirements.

Adjusted net (loss) income and Adjusted EBITDA

(in thousands)	Three Months Ended March 31,	
	2020	2019
Net (loss) income	$ (1,966)	$ 3,995
Adjustments:		
Amortization of route and customer acquisition costs and location contracts acquired[1]	5,565	4,303
Stock-based compensation[2]	1,060	128
Other expenses, net[3]	1,204	616
Tax effect of adjustments[4]	(467)	(1,494)
Adjusted net income	$ 5,396	$ 7,548
Depreciation and amortization of property and equipment	4,867	6,041
Interest expense	4,249	3,047
Income tax expense	328	3,172
Adjusted EBITDA	$ 14,840	$ 19,808

(1) Route and customer acquisition costs consist of upfront cash payments and future cash payments to third party sales agents to acquire the licensed video gaming establishments that are not connected with a business combination. Accel amortizes the upfront cash payment over the life of the contract, including expected renewals, beginning on the date the location goes live, and recognizes non-cash amortization charges with respect to such items. Future or deferred cash payments, which may occur based on terms of the underlying contract, are generally lower in the aggregate as compared to established practice of providing higher upfront payments, and are also capitalized and amortized over the remaining life of the contract. Future cash payments do not include cash costs associated with renewing customer contracts as Accel does not generally incur significant costs as a result of extension or renewal of an existing contract. Location contracts acquired in a business combination are recorded at fair value as part of the business combination accounting and then amortized as an intangible asset on a straight-line basis over the expected useful life of the contract of 10 years. "Amortization of route and customer acquisition costs and location contracts acquired" aggregates the non-cash amortization charges relating to upfront route and customer acquisition cost payments and location contracts acquired.
(2) Stock-based compensation consists of options, restricted stock units and warrants.
(3) Other expenses, net consists of (i) non-cash expenses including the remeasurement of contingent consideration liabilities, (ii) non-recurring expenses including expenses relating to lobbying efforts and legal expenses in Pennsylvania and lobbying efforts in Missouri, (iii) non-recurring expenses and (iv) non-recurring costs associated with COVID-19.
(4) Calculated by excluding the impact of the non-GAAP adjustments from the current period tax provision calculations.

Adjusted EBITDA for the three months ended March 31, 2020 was $14.8 million, a decrease of $4.9 million, or 24.8%, compared to prior year period primarily due to the impact of the previously mentioned temporary shutdown of video gaming in the state of Illinois due to the COVID-19 outbreak as the slight increase in revenues did not offset the greater increase in costs to support our growing locations and VGTs.

Liquidity and Capital Resources

Accel believes that its cash and cash equivalents, cash flows from operations and borrowing availability under its senior secured credit facility will be sufficient to meet its capital requirements for the next twelve months. Accel's primary short-term cash needs are paying operating expenses, servicing outstanding indebtedness and funding near term acquisitions. As of March 31, 2020, Accel had $166.5 million in cash and cash equivalents.

In response to the decision by the IGB to shut down all VGTs across the State of Illinois due to the COVID-19 outbreak, we have taken action to reduce our projected monthly cash expenses down to $2-$3 million during the shutdown to position us to weather the temporary cessation of operations. The actions taken include furloughing approximately 90% our employees and deferring certain payments to major vendors. Additionally, members of our management team have decided to voluntarily forgo their salaries during this COVID-19 pandemic. We also borrowed $65 million on our delayed draw term loan in March 2020 to increase our cash position and help preserve our financial flexibility.

2019 Senior Secured Credit Facility

On November 13, 2019, in order to refinance its prior credit facility, for working capital and other general purposes, we entered into a credit agreement (the "Credit Agreement") as borrower, Accel and our wholly-owned domestic subsidiaries, as a guarantor, the banks, financial institutions and other lending institutions from time to time party thereto, as lenders, the other parties from time to time party thereto and Capital One, National Association, as administrative agent (in such capacity, the "Agent"), collateral agent, issuing bank and swingline lender, providing for a:

- $100.0 million revolving credit facility, including a letter of credit facility with a $10.0 million sublimit and a swing line facility with a $10.0 million sublimit,
- $240.0 million initial term loan facility and
- $125.0 million additional term loan facility.

As of March 31, 2020, there remained approximately $49.5 million of availability under the Credit Agreement.

The obligations under the Credit Agreement are guaranteed by Accel and our wholly-owned domestic subsidiaries, subject to certain exceptions (collectively, the "Guarantors"). The obligations under the Credit Agreement are secured by substantially all of assets of the Guarantors, subject to certain exceptions. Certain future-formed or acquired wholly owned domestic subsidiaries of the Company will also be required to guarantee the Credit Agreement and grant a security interest in substantially all of its assets (subject to certain exceptions) to secure the obligations under the Credit Agreement.

Borrowings under the Credit Agreement bear interest, at Accel's option, at a rate per annum equal to either (a) the adjusted LIBOR rate ("LIBOR") (which cannot be less than zero) for interest periods of 1, 2, 3 or 6 months (or if consented to by (i) each applicable Lender, 12 months or any period shorter than 1 month or (ii) the Agent, a shorter period necessary to ensure that the end of the relevant interest period would coincide with any required amortization payment) plus the applicable LIBOR margin or (b) the alternative base rate ("ABR") plus the applicable ABR margin. ABR is a fluctuating rate per annum equal to the highest of (i) the Federal Funds Effective Rate plus 1/2 of 1.0%, (ii) the prime rate announced from time to time by Capital One, National Association and (iii) LIBOR for a 1-month Interest Period on such day plus 1.0%. The Credit Agreement also includes provisions for determining a replacement rate when LIBOR is no longer available. As of March 31, 2020, the weighted-average interest rate was approximately 4.07%.

Interest is payable quarterly in arrears for ABR loans, at the end of the applicable interest period for LIBOR loans (but not less frequently than quarterly) and upon the prepayment or maturity of the underlying loans. Accel is required to pay a commitment fee

quarterly in arrears in respect of unused commitments under the revolving credit facility and the additional term loan facility. Additionally, we are required to pay an upfront fee with respect to any funded additional term loans.

The applicable LIBOR and ABR margins and the commitment fee rate are calculated based upon the first lien net leverage ratio of Accel and its restricted subsidiaries on a consolidated basis, as defined in the Credit Agreement. Until the delivery of the initial financial statements under the Credit Agreement, the revolving loans and term loans bear interest, at the option of Accel, at either (a) ABR plus a margin of 1.25% or (b) LIBOR plus a margin of 2.25%.

The additional term loan facility is available for borrowings until the first anniversary of November 13, 2019 ("the Closing Date"). Each of the revolving loans and the term loans mature on November 13, 2024.

The term loans and, once drawn, the additional term loans will amortize at an annual rate equal to approximately 5.00% per annum. Upon the consummation of certain non-ordinary course asset sales, we may be required to apply the net cash proceeds thereof to prepay outstanding term loans and additional term loans. The loans under the Credit Agreement may be prepaid without premium or penalty, subject to customary LIBOR "breakage" costs.

The Credit Agreement contains certain customary affirmative and negative covenants and events of default, and requires Accel and certain of its affiliates obligated under the Credit Agreement to make customary representations and warranties in connection with credit extensions thereunder.

In addition, the Credit Agreement requires Accel to maintain (a) a ratio of consolidated first lien net debt to consolidated EBITDA no greater than 4.50 to 1.00 and (b) a ratio of consolidated EBITDA to consolidated fixed charges no less than 1.20 to 1.00, in each case, tested as of the last day of each full fiscal quarter ending after the Closing Date and determined on the basis of the four most recently ended fiscal quarters of Accel for which financial statements have been delivered pursuant to the Credit Agreement, subject to customary "equity cure" rights.

If an event of default (as such term is defined in the Credit Agreement) occurs, the lenders would be entitled to take various actions, including the acceleration of amounts due under the Credit Agreement, termination of the lenders' commitments thereunder, foreclosure on collateral, and all other remedial actions available to a secured creditor. The failure to pay certain amounts owing under the Credit Agreement may result in an increase in the interest rate applicable thereto.

Accel was in compliance with all debt covenants as of March 31, 2020. Given our assumptions about the future impact of COVID-19 on the gaming industry, which could be materially different due to the inherent uncertainties of future restrictions on the industry, we expect to meet our cash obligations as well as remain in compliance with the debt covenants in our credit facility for the next 12 months. If our assumptions about the future impact of COVID-19 on the gaming industry are materially different, there is a potential for a covenant breach.

Prior Credit Facility

Accel's Prior Credit Facility was a senior secured first lien credit facility, as amended, that consisted of a $125.0 million term loan, a contract draw loan facility of $170.0 million and a revolving credit facility of $85.0 million. Accel's prior credit facility was with a syndicated group of banks with CIBC Bank USA, as administrative agent for the Lenders. Included in the revolving credit facility and contract draw loan were swing line sub-facilities of $5.0 million each.

The Prior Credit Facility was paid off with the proceeds from the 2019 Senior Secured Credit Facility.

Cash Flows

The following table summarizes Accel's net cash provided by or used in operating activities, investing activities and financing activities for the periods indicated and should be read in conjunction with our condensed consolidated financial statements and the notes thereto included in this filing:

(in thousands)	Three Months Ended March 31,	
	2020	2019
Net cash (used in) provided by operating activities	$ (4,349)	$ 17,900
Net cash used in investing activities	(3,734)	(5,551)
Net cash provided by (used in) financing activities	49,218	(9,219)

Net cash (used in) provided by operating activities

For the three months ended March 31, 2020, net cash used in operating activities was $4.3 million, a decrease of $22.2 million over the comparable period. In addition to our decrease in net income, we experienced a decrease in working capital adjustments.

Net cash used in investing activities

For the three months ended March 31, 2020, net cash used in investing activities was $3.7 million, a decrease of $1.8 million over the comparable period and was primarily attributable to less cash used to purchase property and equipment.

Net cash provided by (used in) financing activities

Cash from financing activities is primarily used to fund acquisitions, purchases of property and equipment, and for working capital requirements.

For the three months ended March 31, 2020, net cash provided by financing activities was $49.2 million, an increase of $58.4 million over the comparable period. The increase was primarily due to an increase in net borrowings on Accel's credit facility, partially offset by higher payments on consideration payable.

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements, we applied the same critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2019 that affect judgments and estimates of amounts recorded for certain assets, liabilities, revenues, and expenses.

Change in Estimate

During the first quarter of 2020, we conducted a review of our estimates of depreciable lives for our video gaming terminals and equipment. As a result of this review, we extended the useful lives of our video gaming terminals and equipment from 7 to 10 as the equipment is lasting longer than originally estimated. We have many video gaming terminals and equipment that were purchased when we started operations that are still being used today. The impact of this change in estimate for the first quarter of 2020 was a net decrease in depreciation expense of $2.6 million, $2.4 million net of tax.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

The following table sets forth Accel's obligations and commitments to make future payments under contracts and contingent commitments as of March 31, 2020 (in thousands):

	Less than 1 Year	Due in 1 to 3 years	Due in 3 to 5 years	Due in over 5 years	Total
Credit facility principal payments[1]	$ 18,250	$ 36,500	$ 357,000	$ —	$ 411,750
Interest payments on credit facility[2]	13,553	25,359	18,439	—	57,351
Operating lease obligations[3]	273	246	65	—	584
Total contractual obligations	$ 32,076	$ 62,105	$ 375,504	$ —	$ 469,685

(1) Term Loans require quarterly principal payments of 1.25% of the outstanding loan amounts on the Closing Date.
(2) Interest payable monthly on unpaid balances at variable per annum LIBOR rate plus applicable margin.
(3) Represents leased office space under agreements expiring between January 2020 through December 2023.

Route acquisition costs payable

Accel enters into contracts with third parties and licensed establishments throughout the State of Illinois which allow Accel to install and operate VGTs. Payments are due over varying terms of the individual agreements and are discounted at Accel's incremental borrowing cost at the time the contract is acquired. As of March 31, 2020, and December 31, 2019, route acquisition costs payable was $6.6 million and $6.5 million, respectively. The cost payable is included on Accel's balance sheets as a liability as its deemed to be both probable and estimable based on all available information; however, contractual payments are contingent upon continued future operations of the licensed establishments including ongoing compliance with licensing requirements.

Consideration payable

Consideration payable consists of amounts payable related to certain business acquisitions as well as contingent consideration for future licensed establishment performance related to certain business acquisitions. The contingent consideration is measured at fair value on a recurring basis. Accel uses a discounted cash flow analysis to determine the value of contingent consideration upon acquisition and updates this estimate on a recurring basis. The significant assumptions in the cash flow analysis include the probability adjusted projected revenues after state taxes, a discount rate as applicable to each acquisition, and the estimated number of licensed establishments at which Accel commences operations during the contingent consideration period. The changes in the fair value of contingent consideration are recognized within Accel's condensed consolidated statements of operations in other expenses, net. As of March 31, 2020, and December 31, 2019, the consideration payable balance was $19.4 million and $26.7 million, respectively.

Seasonality

Accel's results of operations can fluctuate due to seasonal trends and other factors. For example, the gross revenue per machine per day is typically lower in the summer when players will typically spend less time indoors at licensed establishment partners, and higher in cold weather between February and April, when players will typically spend more time indoors at licensed establishment partners. Holidays, vacation seasons, and sporting events may also cause Accel's results to fluctuate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact Accel's financial position due to adverse changes in financial market prices and rates. Market risk exposure is primarily the result of fluctuations in interest rates as well as, to a lesser extent, inflation.

Interest rate risk

Accel is exposed to interest rate risk in the ordinary course of its business. Accel's borrowings under its senior secured credit facility was $411.8 million as of March 31, 2020. If the underlying interest rates were to increase by 1.0%, or 100 basis points, the increase in interest expense on Accel's floating rate debt would negatively impact Accel's future earnings and cash flows by approximately $4.1 million annually, assuming the balance outstanding under Accel's credit facility remained at $411.8 million. Cash and cash equivalents are held in cash vaults, highly liquid, checking and money market accounts, VGTs, redemption terminals, ATMs, and amusement equipment. As a result, these amounts are not materially affected by changes in interest rates. Accel also has a $50 million investment in a 90-day term deposit account, at a fixed interest rate, that matures on June 30, 2020.

Inflation Risk

Accel does not believe that inflation has had a material effect on its results of operations, cash flows and financial condition in the last three years. Inflation may become a greater risk in the event of changes in current economic conditions and governmental fiscal policy.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the filing of this Form 10-Q for the quarter ended March 31, 2020, our Chief Executive Officer ("CEO", serving as our Principal Executive Officer) and our Chief Financial Officer ("CFO", serving as our Principal Financial Officer) conducted 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 Securities Exchange Act of 1934, as amended ("Exchange Act")). As a result of this evaluation, our CEO and CFO concluded that those material weaknesses previously identified in Item 9A. "Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2019 were still present as of March 31, 2020 (the "Evaluation Date"). Based on those material weaknesses, and the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of the Evaluation Date.

Notwithstanding the identified material weaknesses, management believes that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations, and cash flows as of March 31, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes during the quarter ended March 31, 2020 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than the material weaknesses previously identified and disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Lawsuits and claims are filed against Accel from time to time in the ordinary course of business, including related to employment agreements and non-compete clauses and agreements. Other than settled matters explained as follows, these actions are in various stages, and no judgments or decisions have been rendered. Management, after reviewing matters with legal counsel, believes that the outcome of such matters are not expected to have a material adverse effect on our financial position or results of operations.

Accel has been involved in a series of related litigated matters stemming from claims that Accel wrongly contracted with 10 different licensed establishments (the "Defendant Establishments") in 2012 in violation of the contractual rights held by J&J Ventures Gaming, LLC ("J&J"), as further described below.

On August 21, 2012, one of Accel's operating subsidiaries entered into certain agreements with Jason Rowell ("Rowell"), a member of Action Gaming LLC ("Action Gaming"), which was an unlicensed terminal operator that had exclusive rights to place and operate VGTs within a number of establishments, including the Defendant Establishments. Under agreements with Rowell, Accel agreed to pay him for each licensed establishment which decided to enter into exclusive location agreements with Accel. In late August and early September 2012, each of the Defendant Establishments signed separate location agreements with Accel, purporting to grant it the exclusive right to operate VGTs in those establishments. Separately, on August 24, 2012, Action Gaming sold and assigned its rights to all its location agreements to J&J, including its exclusive rights with the Defendant Establishments (the "J&J Assigned Agreements"). At the time of the assignment of such rights to J&J, the Defendant Establishments were not yet licensed by the IGB.

Action Gaming, J&J, and other parties, collectively, the Plaintiffs, filed a complaint against Accel, Rowell, and other parties in the Circuit Court of Cook County (the "Circuit Court"), on August 31, 2012, as amended on November 1, 2012, December 19, 2012, and October 3, 2013, alleging, among other things, that Accel aided and abetted Rowell in breaches of his fiduciary duties and contractual obligations with Action Gaming and tortiously interfered with Action Gaming's contracts with Rowell and agreements assigned to J&J. The complaint seeks damages and injunctive and equitable relief. On January 24, 2018, Accel filed a motion to dismiss for lack of subject matter jurisdiction, as further described below. On May 14, 2018, the Circuit Court denied Accel's motion to dismiss and granted a stay to the case, pending a ruling from the IGB on the validity of the J&J Assigned Agreements.

From 2013 to 2015, the Plaintiffs filed additional claims, including J&J Ventures Gaming, LLC et al. v. Wild, Inc. ("Wild"), in various circuit courts seeking declaratory judgements with a number of establishments, including each of the Defendant Establishments, requesting declarations that, among other things, J&J held the exclusive right to operate VGTs at each of the Defendant Establishments as a result of the J&J Assigned Agreements. Accel was granted leave to intervene in all of the declaratory judgements. The circuit courts found that the J&J Assigned Agreements were valid because each of the underlying location agreements were between an unlicensed establishment and an unlicensed terminal operator, and therefore did not constitute use agreements that were otherwise precluded from assignment under the IGB's regulations. Upon Accel's appeal, the Illinois Appellate Court, Fifth District (the "District Court"), vacated the circuit courts' judgments and dismissed the appeals, holding that the IGB had exclusive jurisdiction over the matter that formed the basis of the parties' claims, and declined to consider the merits of the parties' disputes. On September 22, 2016, and after the IGB intervened, the Supreme Court of Illinois issued a judgment in Wild, affirming the District Court's decision vacating the circuit courts' judgments for lack of subject matter jurisdiction and dismissing the appeals, determining that the IGB has exclusive jurisdiction to decide the validity and enforceability of VGT use agreements.

Between May 2017 and September 2017, both Accel and J&J filed petitions with the IGB seeking adjudication of the rights of the parties and the validity of the use agreements. Those petitions have been fully briefed and remain pending. There is no indication as to when the IGB will rule on the petitions. Accel does not have a present estimate regarding the potential damages, if any, that could potentially be awarded in this litigation and, accordingly, have established no reserves relating to such matters. There are also petitions pending with the IGB which could lead to Accel obtaining new locations.

On October 7, 2019, Accel filed a lawsuit in the Circuit Court of Cook County against Jason Rowell and other parties related to Mr. Rowell's breaches of his non-compete agreement with Accel. Accel alleged that Mr. Rowell and a competitor were working

together to interfere with Accel's customer relationships. That lawsuit, which seeks equitable relief and legal damages, has not yet been served. On November 7, 2019, Mr. Rowell filed a lawsuit in the Circuit Court of Cook County against Accel alleging that he had not received certain equity interests in Accel to which he was allegedly entitled under his agreement. Accel intends to defend itself against the allegations. Accel does not have a present estimate regarding the potential damages, nor does it believe any payment of damages is probable, and, accordingly, has established no reserves relating to these matters.

On July 2, 2019, Illinois Gaming Investors, LLC filed a lawsuit against Accel. The lawsuit alleges that a current employee violated his non-competition agreement with Illinois Gaming Investors, LLC, and together with Accel, wrongfully solicited prohibited licensed video gaming locations. The lawsuit on its face seeks damages of $10,000,000. The parties are engaging in discovery. We are in the process of defending this lawsuit, and have not accrued any amounts as losses related to this suit are not probable or reasonably estimable.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019 and our condensed consolidated financial statements and related notes contained in this Quarterly Report on Form 10-Q in analyzing an investment in our common stock. If any such risks occur, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock would decline, and you could lose all or part of your investment. In addition, the risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this report or other documents we file with the SEC, or our annual report to stockholders, future press releases, or orally, whether in presentations, responses to questions, or otherwise. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially adversely affect our business, financial condition, or results of operations.

In addition to the Risk Factors described under Part I - Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019, the following additional risk factor should be considered in connection with an investment in our common stock, and should be deemed to update or replace, as applicable, other Risk Factors, as applicable.

The outbreak and spread of the novel coronavirus disease known as COVID-19 has had, and could continue to have, an adverse impact on our business, operations and financial condition for an extended period of time.

On March 11, 2020 the World Health Organization declared the novel coronavirus disease ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The global and national impact of COVID-19 could be immense and the length of the pandemic and its ultimate economic and human toll cannot yet be determined.

On March 16, 2020, the IGB issued an order requiring the suspension of all video gaming operations at all licensed video gaming establishments of any kind in Illinois (the "IGB Closure Order"). Additionally, on March 21, 2020, Illinois Governor J.B. Pritzker issued an executive order (the "Illinois Executive Order") requiring the closure of all "non-essential" businesses and also requiring all individuals living within the State of Illinois to "stay at home" other than in the case of limited exceptions. The IGB Closure Order and the Illinois Executive Order were each extended multiple times and remain currently in effect. The mandated complete shutdown of our licensed establishment partners' gaming operations and our VGTs by the IGB Closure Order has substantially and adversely impacted our business, operations and financial condition. In addition, we have been, and will continue to be further, negatively impacted by related developments, including heightened governmental regulations and travel advisories, recommendations by the U.S. Department of State and the Centers for Disease Control and Prevention, and travel bans and restrictions, each of which has impacted, and is expected to continue to significantly impact, travel of customers to our licensed establishment partners.

Moreover, even if the IGB Closure Order and Illinois Executive Order are ultimately lifted it is unclear what additional conditions might be imposed on those orders or whether they could be reinstated and in what form. It is unknowable at this time how quickly customers will return to our licensed establishment partners, which may be a function of continued concerns over safety and/or depressed consumer sentiment due to adverse economic conditions, including job losses. Demand for the video gaming and non-gaming services provided by our licensed establishment partners may remain weak for a significant length of time and we cannot

predict if and when such demand will return to pre-outbreak demand, if at all. We also cannot predict whether all of our licensed establishment partners will re-open and continue operating, or if they do, whether they will choose to renew their contracts with Accel at pre-outbreak levels or at all. Certain of our licensed establishment partners may go out of business. We may be adversely impacted as a result of the adverse impact our licensed establishment partners suffer.

As a result of the Illinois Executive Order, we implemented a work from home policy for substantially all of our workforce, which, if continued, may have a substantial impact on employee attendance and productivity, may cause employee turnover, disrupt access to facilities, equipment, networks, corporate systems, books and records and may add additional expenses and strain on our business. If and when the IGB Closure and Illinois Executive Orders, or either of them, are lifted and our operations resume, we may experience difficulties in resuming our operations to pre-closure levels, and our ability to serve our clients may be disrupted or inconsistent with pre-closure service, all or any of which could have a material adverse effect on our business, operations and financial condition.

Further, our business may be negatively impacted by the adverse changes in the perceived or actual economic climate, including higher unemployment rates, declines in income levels and loss of personal wealth resulting from the impact of COVID-19.

Additionally, given the existing impact of COVID-19 on our business, operations and financial condition and potential future impact, we can make no assurances that we will be able to successfully pursue expansion of gaming operations into new jurisdictions or that such jurisdictions will pass laws and regulations allowing VGT gaming, the opening of new licensed establishments, the addition of new VGTs and amusement machines in existing licensed establishments or the acquisition of other terminal operators.

There may be other adverse consequences to our business, operations and financial condition from the spread of COVID-19 that we have not considered. We have never previously experienced a complete cessation of our business operations, and as a consequence, our ability to predict the impact of such a cessation on our business and future prospects is inherently uncertain. We can offer no assurances that the effects of COVID-19 are temporary or that any losses that are incurred as a result of these uncertainties will be regained if and when this crisis has passed. As a result, COVID-19 may continue to have an adverse impact on our business, operations and financial condition for an extended period of time.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit
10.13**	Form of Company Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K dated February 27, 2020).
10.14**	Form of Company Stock Option Award Agreement (Incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K dated February 27, 2020).
10.15**	Advisor Agreement, dated February 28, 2020, by and between Gordon Rubenstein and the Company (Incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K dated February 27, 2020).
10.16**	Employment Agreement by and between Accel Entertainment Gaming, LLC and Mark Phelan, dated as of May 1, 2017. (Incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).
10.17**	Executive Employment Agreement by and between Accel Entertainment, Inc. and Michael Marino, dated as of March 8, 2020.(Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).
10.18**	Executive Employment Agreement by and between Accel Entertainment, Inc. and Ryan Hammer, dated as of March 6, 2020.(Incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019).
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Inline XBRL File (included in Exhibit 101)

* Filed herewith.

** Indicates management contract or compensation plan or agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCEL ENTERTAINMENT, INC.

Date: May 8, 2020

By: */s/ Brian Carroll*

Brian Carroll
Chief Financial Officer

Exhibit 31.1

Certification of Principal Executive Officer

I, Andrew Rubenstein, certify that:

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

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

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

4. The registrant's other certifying officer(s) 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(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 8, 2020

/s/ *Andrew Rubenstein*

Andrew Rubenstein

Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer

I, Brian Carroll, certify that:

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

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

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

4. The registrant's other certifying officer(s) 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(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: May 8, 2020

/s/ *Brian Carroll*

Brian Carroll

Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

Section 1350 Certification of Principal Executive Officer

In connection with the Quarterly Report on Form 10-Q of Accel Entertainment, Inc. (the "Company") for the three months ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Rubenstein, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *Andrew Rubenstein*

Andrew Rubenstein
Chief Executive Officer (Principal Executive Officer)

Date: May 8, 2020

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Accel Entertainment, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

Section 1350 Certification of Principal Financial Officer

In connection with the Quarterly Report on Form 10-Q of Accel Entertainment, Inc. (the "Company") for the three months ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Carroll, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ *Brian Carroll*

Brian Carroll

Chief Financial Officer (Principal Financial Officer)

Date: May 8, 2020

This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Accel Entertainment, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.