
**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 September 30, 2023

or

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

For the transition period from _____ to _____

Commission File Number 001-38136

Accel Entertainment, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

98-1350261
(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:

<u>Title of Each Class</u>	<u>Trading Symbols</u>	<u>Name of Each Exchange on Which Registered</u>
Class A-1 Common Stock, par value \$.0001 per share	ACEL	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 November 3, 2023, there were 84,803,284 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 SEPTEMBER 30, 2023

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Net gaming	\$ 274,123	\$ 255,606	\$ 831,054	\$ 662,491
Amusement	5,411	4,860	17,839	14,543
Manufacturing	3,334	2,489	9,886	3,408
ATM fees and other	4,629	4,012	14,573	11,285
Total net revenues	287,497	266,967	873,352	691,727
Operating expenses:				
Cost of revenue (exclusive of depreciation and amortization expense shown below)	198,743	185,878	604,603	473,164
Cost of manufacturing goods sold (exclusive of depreciation and amortization expense shown below)	2,065	1,656	5,627	2,421
General and administrative	45,183	39,796	132,421	103,634
Depreciation and amortization of property and equipment	9,405	8,136	27,914	20,575
Amortization of intangible assets and route and customer acquisition costs	5,299	5,156	15,825	12,278
Other expenses, net	1,682	3,106	5,006	7,894
Total operating expenses	262,377	243,728	791,396	619,966
Operating income	25,120	23,239	81,956	71,761
Interest expense, net	8,415	6,239	24,546	14,031
Loss (gain) on change in fair value of contingent earnout shares	1,625	(10,358)	11,063	(19,497)
Income before income tax expense	15,080	27,358	46,347	77,227
Income tax expense	4,630	4,914	16,732	16,531
Net income	<u>\$ 10,450</u>	<u>\$ 22,444</u>	<u>\$ 29,615</u>	<u>\$ 60,696</u>
Earnings per common share:				
Basic	\$ 0.12	\$ 0.25	\$ 0.34	\$ 0.66
Diluted	0.12	0.25	0.34	0.66
Weighted average number of shares outstanding:				
Basic	85,865	89,992	86,305	91,299
Diluted	87,114	90,528	87,022	91,945
Comprehensive income				
Net income	\$ 10,450	\$ 22,444	\$ 29,615	\$ 60,696
Unrealized gain (loss) on interest rate caplets (net of income taxes of \$37, \$2,317, \$(3) and \$5,011, respectively)	97	5,925	(7)	12,696
Comprehensive income	<u>\$ 10,547</u>	<u>\$ 28,369</u>	<u>\$ 29,608</u>	<u>\$ 73,392</u>

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)

	September 30, 2023	December 31, 2022
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 230,388	\$ 224,113
Accounts receivable, net	13,362	11,166
Prepaid expenses	8,027	7,407
Inventories	6,780	6,941
Interest rate caplets	9,927	8,555
Investment in convertible notes	—	32,065
Other current assets	14,166	8,965
Total current assets	282,650	299,212
Property and equipment, net	245,714	211,844
Noncurrent assets:		
Route and customer acquisition costs, net	19,127	18,342
Location contracts acquired, net	177,681	189,343
Goodwill	101,554	100,707
Other intangible assets, net	21,152	22,979
Interest rate caplets, net of current	9,241	11,364
Other assets	14,289	8,978
Total noncurrent assets	343,044	351,713
Total assets	\$ 871,408	\$ 862,769
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of debt	\$ 28,479	\$ 23,466
Current portion of route and customer acquisition costs payable	1,481	1,487
Accrued location gaming expense	7,858	7,791
Accrued state gaming expense	16,965	16,605
Accounts payable and other accrued expenses	23,067	22,302
Accrued compensation and related expenses	9,192	10,607
Current portion of consideration payable	5,175	7,647
Total current liabilities	92,217	89,905
Long-term liabilities:		
Debt, net of current maturities	484,004	518,566
Route and customer acquisition costs payable, less current portion	4,893	5,137
Consideration payable, less current portion	5,319	6,872
Contingent earnout share liability	34,351	23,288
Other long-term liabilities	5,786	3,390
Deferred income tax liability, net	46,064	37,021
Total long-term liabilities	580,417	594,274
Stockholders' equity:		
Preferred Stock, par value of \$0.0001; 1,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—
Class A-1 Common Stock, par value \$0.0001; 250,000,000 shares authorized; 94,872,069 shares issued and 85,389,889 shares outstanding at September 30, 2023; 94,504,051 shares issued and 86,674,390 shares outstanding at December 31, 2022	9	9
Additional paid-in capital	200,545	194,157
Treasury stock, at cost	(97,509)	(81,697)
Accumulated other comprehensive income	12,233	12,240
Accumulated earnings	83,496	53,881
Total stockholders' equity	198,774	178,590
Total liabilities and stockholders' equity	\$ 871,408	\$ 862,769

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		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income	Accumulated Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, January 1, 2023	86,674,390	\$ 9	\$ 194,157	(7,829,661)	\$ (81,697)	\$ 12,240	\$ 53,881	\$ 178,590
Repurchase of common stock	(476,718)	—	—	(476,718)	(4,206)	—	—	(4,206)
Stock-based compensation	—	—	1,688	—	—	—	—	1,688
Exercise of stock-based awards, net of shares withheld	247,153	—	(602)	—	—	—	—	(602)
Unrealized loss on interest rate caplets, net of taxes	—	—	—	—	—	(2,166)	—	(2,166)
Net income	—	—	—	—	—	—	9,182	9,182
Balance, March 31, 2023	86,444,825	9	195,243	(8,306,379)	(85,903)	10,074	63,063	182,486
Repurchase of common stock	(887,174)	—	—	(887,174)	(8,230)	—	—	(8,230)
Stock-based compensation	—	—	2,567	—	—	—	—	2,567
Exercise of stock-based awards, net of shares withheld	48,074	—	(120)	—	—	—	—	(120)
Unrealized gain on interest rate caplets, net of taxes	—	—	—	—	—	2,062	—	2,062
Net income	—	—	—	—	—	—	9,983	9,983
Balance, June 30, 2023	85,605,725	\$ 9	\$ 197,690	(9,193,553)	\$ (94,133)	\$ 12,136	\$ 73,046	\$ 188,748
Repurchase of common stock	(301,199)	—	—	(301,199)	(3,376)	—	—	(3,376)
Stock-based compensation	—	—	2,718	—	—	—	—	2,718
Exercise of stock-based awards, net of shares withheld	85,363	—	137	—	—	—	—	137
Unrealized gain on interest rate caplets, net of taxes	—	—	—	—	—	97	—	97
Net income	—	—	—	—	—	—	10,450	10,450
Balance, September 30, 2023	85,389,889	\$ 9	\$ 200,545	(9,494,752)	\$ (97,509)	\$ 12,233	\$ 83,496	\$ 198,774

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

(In thousands, except shares)

	Class A-1 Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income	Accumulated Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, January 1, 2022	93,410,563	\$ 9	\$ 187,656	(701,305)	\$ (8,983)	\$ —	\$ (20,221)	\$ 158,461
Repurchase of common stock	(1,087,990)	—	—	(1,087,990)	(13,934)	—	—	(13,934)
Stock-based compensation	—	—	1,605	—	—	—	—	1,605
Exercise of stock-based awards	161,969	—	38	—	—	—	—	38
Unrealized gain on interest rate caplets, net of taxes	—	—	—	—	—	4,864	—	4,864
Net income	—	—	—	—	—	—	15,788	15,788
Balance, March 31, 2022	92,484,542	9	189,299	(1,789,295)	(22,917)	4,864	(4,433)	166,822
Repurchase of common stock	(2,326,413)	—	—	(2,326,413)	(25,498)	—	—	(25,498)
Reissuance of treasury stock in business combination	515,622	—	(705)	515,622	6,289	—	—	5,584
Stock-based compensation	—	—	2,281	—	—	—	—	2,281
Exercise of stock-based awards	85,580	—	315	—	—	—	—	315
Unrealized gain on interest rate caplets, net of taxes	—	—	—	—	—	1,907	—	1,907
Net income	—	—	—	—	—	—	22,464	22,464
Balance, June 30, 2022	90,759,331	9	191,190	(3,600,086)	(42,126)	6,771	18,031	173,875
Repurchase of common stock	(2,265,107)	—	—	(2,265,107)	(22,486)	—	—	(22,486)
Stock-based compensation	—	—	1,070	—	—	—	—	1,070
Exercise of stock-based awards	75,448	—	54	—	—	—	—	54
Unrealized gain on interest rate caplets, net of taxes	—	—	—	—	—	5,925	—	5,925
Net income	—	—	—	—	—	—	22,444	22,444
Balance, September 30, 2022	88,569,672	\$ 9	\$ 192,314	(5,865,193)	\$ (64,612)	\$ 12,696	\$ 40,475	\$ 180,882

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)	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 29,615	\$ 60,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	27,914	20,575
Amortization of intangible assets and route and customer acquisition costs	15,825	12,278
Amortization of debt issuance costs	1,349	1,652
Loss (gain) on change in fair value of contingent earnout shares	11,063	(19,497)
Stock-based compensation	6,973	4,956
Loss (gain) on disposal of property and equipment	94	(706)
Net loss on write-off of route and customer acquisition costs and route and customer acquisition costs payable	784	410
Remeasurement of contingent consideration	178	(1,992)
Payments on consideration payable	(2,123)	(2,282)
Accretion of interest on route and customer acquisition costs payable, contingent consideration, and contingent stock consideration	1,141	1,991
Deferred income taxes	9,047	10,958
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(1,183)	(605)
Accounts receivable, net	(2,196)	661
Inventories	167	(432)
Route and customer acquisition costs	(2,762)	(3,170)
Route and customer acquisition costs payable	(449)	1,115
Accounts payable and accrued expenses	1,783	(6,205)
Accrued compensation and related expenses	(1,415)	(284)
Other assets	(3,798)	(1,869)
Net cash provided by operating activities	92,007	78,250
Cash flows from investing activities:		
Purchases of property and equipment	(60,218)	(32,978)
Proceeds from the sale of property and equipment	1,464	1,735
Proceeds from the settlement of convertible notes	32,065	—
Advances against a portion of the purchase price on pending business acquisition	(4,600)	—
Business and asset acquisitions, net of cash acquired	(4,115)	(137,628)
Net cash used in investing activities	(35,404)	(168,871)
Cash flows from financing activities:		
Proceeds from debt	123,000	199,000
Payments on debt	(152,875)	(24,000)
Payments for debt issuance costs	(300)	—
Payments for repurchase of common stock	(15,655)	(61,917)
Payments on interest rate caplets	(723)	(633)
Proceeds from exercise of stock-based awards	208	407
Payments on consideration payable	(3,022)	(8,892)
Tax withholding on stock-based payments	(961)	(67)
Net cash (used in) provided by financing activities	(50,328)	103,898
Net increase in cash and cash equivalents	6,275	13,277
Cash and cash equivalents:		
Beginning of period	224,113	198,786
End of period	<u>\$ 230,388</u>	<u>\$ 212,063</u>

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

(In thousands)	Nine Months Ended September 30,	
	2023	2022
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 22,586	\$ 11,964
Income taxes	\$ 7,575	\$ 7,041
Supplemental schedules of noncash investing and financing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	\$ 11,655	\$ 8,128
Deferred premium on interest rate caplets	\$ 2,302	\$ 3,265
Fair value of treasury stock issued in business combination	\$ —	\$ 5,584
Acquisition of businesses and assets:		
Total identifiable net assets acquired	\$ 4,115	\$ 179,015
Less cash acquired	—	(33,270)
Less consideration payable	—	(2,533)
Less fair value of treasury stock issued	—	(5,584)
Cash purchase price	<u>\$ 4,115</u>	<u>\$ 137,628</u>

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 together with its subsidiaries, the “Company” or “Accel”) is a leading distributed gaming operator in the United States (“U.S.”). The Company has operations in Illinois, Montana, Nevada, Georgia, Nebraska, Iowa, and Pennsylvania. The Company is subject to the various gaming regulations in the states in which it operates, as well as various other federal, state and local laws and regulations.

The Company’s business primarily consists of the installation, maintenance and operation of gaming terminals, 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. The Company also operates stand-alone ATMs in gaming and non-gaming locations.

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 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, 2022 (the “Form 10-K”). In preparing our condensed consolidated financial statements, we applied the same significant accounting policies as described in Note 2 to the consolidated financial statements in the Form 10-K. Any significant changes to those accounting policies are discussed below. Interim results are not necessarily indicative of results for a full year.

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 selection of useful lives for depreciable and amortizable assets in conjunction with business acquisitions, the valuation of level 3 investments, the valuation of contingent earnout shares and interest rate caplets, contingencies, and the expected term of share-based compensation awards and stock price volatility when computing stock-based compensation expense. Actual results may differ from those estimates.

Segment information: The Company operates as a single reportable 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.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Revenue recognition: The Company primarily generates revenues from the following types of services: gaming terminals, amusements, manufacturing and ATMs. Revenue is disaggregated by type of revenue and is presented on the face of the consolidated statements of operations and comprehensive income.

Total net revenues for the three and nine months ended September 30, 2023 and 2022 is disaggregated in the following table by the primary states in which the Company operates.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenues by state:				
Illinois	\$ 212,113	\$ 200,914	\$ 647,903	\$ 601,735
Montana	39,362	33,456	115,088	44,282
Nevada	28,003	28,439	87,833	37,359
Other	8,019	4,158	22,528	8,351
Total net revenues	<u>\$ 287,497</u>	<u>\$ 266,967</u>	<u>\$ 873,352</u>	<u>\$ 691,727</u>

Recent accounting pronouncements: In October 2021, the FASB issued Accounting Standards Update (“ASU”) No. 2021-08, *Business Combinations (Topic 805)*. The guidance in this ASU improves the accounting for revenue contracts with customers acquired in a business combination by addressing diversity in practice and inconsistency related to recognition of contract assets and liabilities acquired in a business combination. The provisions of this ASU require that an acquiring entity accounts for the related revenue contracts in accordance with Accounting Standards Codification (“ASC”) 606 as if it had originated the contracts. The standard is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years with early adoption permitted. The impact of the adoption of this ASU has not been material to the Company’s financial statements or disclosures.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This ASU provides temporary guidance to ease the potential burden in accounting for reference rate reform primarily resulting from the discontinuation of the London Inter-Bank Offered Rate (“LIBOR”), which began phasing out on December 31, 2021. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The new guidance (i) simplifies accounting analyses under current GAAP for contract modifications; (ii) simplifies the assessment of hedge effectiveness and allows hedging relationships affected by reference rate reform to continue; and (iii) allows a one-time election to sell or transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform. The Company adopted the new standard in the second quarter of 2023 as the Company transitioned from LIBOR to the Secured Overnight Financing Rate (“SOFR”) for its debt agreements and related cash flow hedges. The Company elected certain expedients offered by Topic 848 and, as such, the impact from referenced rate reform did not have a material impact on the Company’s results of operations, cash flows or financial position.

Other recently issued accounting standards or pronouncements have been excluded because they are either not relevant to the Company, or are not expected to have, or did not have, a material effect on its condensed consolidated financial statements.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 3. Inventories

Inventories were as follows (in thousands):

	September 30, 2023	December 31, 2022
Raw materials and manufacturing supplies	\$ 5,406	\$ 4,977
Finished products	1,374	1,964
Total inventories	<u>\$ 6,780</u>	<u>\$ 6,941</u>

As of September 30, 2023 and December 31, 2022, no inventory valuation allowance was determined to be necessary.

Note 4. Investment in Convertible Notes

On July 19, 2019, the Company entered into an agreement to purchase up to \$30.0 million in convertible notes from Gold Rush Amusements, Inc. (“Gold Rush”), another terminal operator in Illinois, that bore interest at 3% per annum through December 31, 2021. The convertible notes each included an option to convert the notes to common stock of Gold Rush prior to the maturity date upon written notice from the Company. At closing, the Company purchased a \$5.0 million convertible promissory note which was subordinated to Gold Rush’s credit facility and matured six months following the satisfaction of administrative conditions. On October 11, 2019, the Company purchased an additional \$25.0 million convertible note which was also subordinated to Gold Rush’s credit facility and, beginning on July 1, 2020, the balance of this note, if not previously converted, was payable in equal \$1,000,000 monthly installments until all principal has been repaid in full.

On July 30, 2021, the Company provided notice to Gold Rush that it was exercising its rights under each of the convertible notes to convert the entire aggregate principal amount and accrued interest into common stock of Gold Rush, subject to approval from the Illinois Gaming Board (“IGB”) to transfer the common stock to the Company and receipt of other customary closing deliverables.

On December 2, 2021, the Company received notice from the administrator of the IGB that he was denying the requested transfer of Gold Rush common stock to the Company and the IGB affirmed the administrator’s denial on January 27, 2022.

Based on the IGB denying the Company’s request to transfer Gold Rush common stock despite the Company’s unilateral conversion rights, the convertible notes were accounted for as available for sale debt securities, at fair value, with gains and losses recorded in other comprehensive income (loss). As such, the Gold Rush convertible notes were deemed in default for disclosure and presentation purposes, assuming non-conversion of the convertible notes, as no repayment or installment payments were received. The Company classified the entire \$32.1 million accounting fair value of the convertible notes as current on the condensed consolidated balance sheets as of December 31, 2022 as the Company had expected to resolve this matter within the next year. For more information on how the Company determined the fair value of the convertible notes, see Note 12.

On May 31, 2023, the Company and Gold Rush entered into a settlement agreement which resolved any and all lawsuits and all outstanding obligations under the convertible notes. As part of the settlement, the Company received \$32.5 million from Gold Rush in June 2023, which included the repayment of the face value of the convertible notes plus accrued interest as well as a \$0.4 million prepayment on future amounts due. In addition, the Company has recorded a receivable from Gold Rush of \$1.3 million as of September 30, 2023, which represents the present value of the remaining \$1.5 million due from Gold Rush by May 2025, and is presented within other assets in the condensed consolidated balance sheets. The Company also recorded a gain of \$1.7 million in the second quarter of 2023, which is included in other expenses, net on the condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2023.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 5. Property and Equipment

Property and equipment consist of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022
Gaming terminals and equipment	\$ 344,919	\$ 294,944
Amusement and other equipment	26,850	25,807
Office equipment and furniture	2,998	2,534
Computer equipment and software	20,174	18,526
Leasehold improvements	7,987	6,996
Vehicles	19,938	16,293
Buildings and improvements	12,098	11,945
Land	1,649	1,143
Construction in progress	1,812	647
Total property and equipment	438,425	378,835
Less accumulated depreciation and amortization	(192,711)	(166,991)
Property and equipment, net	\$ 245,714	\$ 211,844

Depreciation and amortization of property and equipment was \$9.4 million and \$27.9 million for the three and nine months ended September 30, 2023, respectively. In comparison, depreciation and amortization of property and equipment was \$8.1 million and \$20.6 million for the three and nine months ended September 30, 2022, respectively.

Note 6. Route and Customer Acquisition Costs

The Company enters into contracts with third parties and its gaming locations to install and operate gaming terminals. When gaming operations commence, payments are due monthly or quarterly. Gross payments due, based on the number of live locations, were approximately \$7.4 million and \$7.6 million as of September 30, 2023, and December 31, 2022, 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 was \$6.4 million and \$6.6 million as of September 30, 2023, and December 31, 2022, respectively, of which approximately \$1.5 million was included in current liabilities in the accompanying condensed consolidated balance sheets as of both September 30, 2023, and December 31, 2022. The route and customer acquisition cost asset was comprised of payments made on the contracts of \$19.5 million and \$17.9 million as of September 30, 2023, and December 31, 2022, 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 clawback provision if the customer cancels the contract prior to completion. The payments subject to a clawback were \$1.0 million and \$1.2 million as of September 30, 2023, and December 31, 2022, respectively.

Route and customer acquisition costs consisted of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022
Cost	\$ 33,534	\$ 31,805
Accumulated amortization	(14,407)	(13,463)
Route and customer acquisition costs, net	\$ 19,127	\$ 18,342

Amortization expense of route and customer acquisition costs was \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2023, respectively. In comparison, amortization expense of route and customer acquisition costs was \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2022, respectively.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 7. 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 consisted of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022
Cost	\$ 283,796	\$ 282,653
Accumulated amortization	(106,115)	(93,310)
Location contracts acquired, net	<u>\$ 177,681</u>	<u>\$ 189,343</u>

Amortization expense of location contracts acquired was \$4.3 million and \$12.8 million for the three and nine months ended September 30, 2023, respectively. In comparison, amortization expense of location contracts acquired was \$4.0 million and \$10.6 million for the three and nine months ended September 30, 2022, respectively.

Note 8. Goodwill and Other Intangible Assets

The Company acquired various companies which were accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations* (“Topic 805”). The total excess of the purchase price over the tangible and intangible assets acquired and liabilities assumed was recorded as goodwill of \$101.6 million and \$100.7 million as of September 30, 2023, and December 31, 2022, respectively, of which \$39.8 million was deductible for tax purposes as of September 30, 2023.

On February 13, 2023, the Company acquired Rendezvous Casino and Burger Bar (“Rendezvous”), a hospitality operation in Billings, Montana, for a total purchase price of \$2.6 million. The purchase price included the cost of the land, building and the related Montana All-Alcoholic Beverage License. The hospitality operation is set to be a Century vended location.

The following is a roll forward of the Company's goodwill (in thousands):

Goodwill balance as of January 1, 2023	\$ 100,707
Addition to goodwill for acquisition of Rendezvous	847
Goodwill balance as of September 30, 2023	<u>\$ 101,554</u>

Other intangible assets

Other intangible assets, net of \$21.2 million and \$23.0 million as of September 30, 2023 and December 31, 2022, respectively, consisted of definite-lived trade names, customer relationships, and software applications. Other intangible assets are related to the acquisition of Century which occurred in the second quarter of 2022. The Company determines the fair value of trade name assets acquired in acquisitions using a relief from royalty valuation method which requires assumptions such as projected revenue and a royalty rate. Other intangible assets are amortized over their estimated 7 to 20-year useful lives. Amortization expense of other intangible assets was \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2023, respectively. In comparison, amortization expense of other intangible assets was \$0.8 million for both the three and nine months ended September 30, 2022.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 9. Debt

The Company's debt as of September 30, 2023, and December 31, 2022, consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Senior Secured Credit Facility:		
Revolving credit facility	\$ 8,000	\$ 121,000
Term Loan	315,000	328,125
Delayed Draw Term Loan	192,500	96,250
Total debt on credit facility	515,500	545,375
Add: Interest rate caplet liability	2,302	3,025
Less: Debt issuance costs	(5,319)	(6,368)
Total debt, net of debt issuance costs	512,483	542,032
Less: Current maturities	(28,479)	(23,466)
Total debt, net of current maturities	\$ 484,004	\$ 518,566

On August 23, 2023, in order to extend the termination date to draw on the delayed draw term loan under the Company's existing credit agreement (as amended, the "Credit Agreement") to October 22, 2024, the Company and the other parties thereto entered into Amendment No. 4 to the Credit Agreement ("Amendment No. 4"). The other terms of the Credit Agreement remained unchanged. The Company incurred \$0.3 million in debt issuance costs related to Amendment No. 4, which are being amortized over the remaining life of the Credit Facility.

On June 7, 2023, in order to replace the referenced LIBOR interest rate in the Company's Credit Agreement with SOFR, the Company and the other parties thereto entered into Amendment No. 3 to the Credit Agreement ("Amendment No. 3"). Under Amendment No. 3, borrowings under the Credit Agreement beginning on June 14, 2023 will bear interest, at the Company's option, at a rate per annum equal to either (a) the Adjusted Term SOFR (which cannot be less than 0.5%) 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 administrative 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 SOFR 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 or (iii) SOFR for a 1-month interest period on such day plus 1.0%. As of September 30, 2023, the weighted-average interest rate was approximately 7.2%.

Interest is payable quarterly in arrears for ABR loans, at the end of the applicable interest period for SOFR 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 delayed draw term loan facility.

The applicable SOFR 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. The revolving loans and term loans bear interest at either (a) ABR (150 bps floor) plus a margin up to 1.75% or (b) SOFR (50 bps floor) plus a margin up to 2.75%, at the option of the Company.

The term loans and the additional term loans will amortize at an annual rate equal to 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 SOFR "breakage" costs.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

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.

Interest rate caplets

The Company manages its exposure to some of its interest rate risk through the use of interest rate caplets, which are derivative financial instruments. On January 12, 2022, the Company hedged the variability of the cash flows attributable to changes in interest rates on the first \$300 million of the term loan under the Credit Agreement by entering into a 4-year series of 48 deferred premium caplets (“caplets”). In connection with the entry into Amendment No. 3, the referenced rate in the caplets was simultaneously changed from LIBOR to SOFR.

The Company recognized an unrealized gain on the change in fair value of the caplets of \$0.1 million and an unrealized loss of less than \$0.1 million, net of taxes, for the three and nine months ended September 30, 2023, respectively. In comparison, the Company recognized an unrealized gain on the change in fair value of the caplets of \$5.9 million and \$12.7 million, net of taxes, for the three and nine months ended September 30, 2022, respectively. For more information on how the Company determines the fair value of the caplets, see Note 12. Further, the 1-month LIBOR/SOFR interest rate exceeded 2% beginning in the second half of 2022. As such, the Company recognized interest income on the caplets of \$2.5 million and \$6.7 million for the three and nine months ended September 30, 2023, respectively, and \$0.2 million for both the three and nine months ended September 30, 2022, which are reflected in interest expense, net in the condensed consolidated statements of operations and other comprehensive income.

Note 10. Business and Asset Acquisitions2023 Business Acquisitions*Illinois Gaming Entertainment*

On May 23, 2023, the Company acquired certain assets of Illinois Gaming Entertainment LLC (“IGE”), an Illinois-based terminal operator. The Company acquired four operational locations, as well as gaming equipment. The acquisition was accounted for as an asset acquisition in accordance with Topic 805. The total purchase price was approximately \$1.5 million, which the Company paid in cash at closing. The total purchase price of \$1.5 million was allocated to the following assets: i) location contracts totaling \$1.1 million and ii) gaming equipment totaling \$0.4 million. The results of operations for IGE are included in the condensed consolidated financial statements of the Company from the date of acquisition and were not material.

On October 3, 2023, the Company acquired an additional three operational locations, as well as gaming equipment, from IGE for a total purchase price of \$2.3 million.

Rendezvous

On February 13, 2023, the Company acquired Rendezvous, a hospitality operation in Billings, Montana. The hospitality operation is set to be a Century vended location. The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with Topic 805. The total purchase price of \$2.6 million was paid in cash at closing and was allocated to the following assets: i) indefinite-lived intangible assets totaling \$0.8 million; ii) land totaling \$0.5 million; iii) buildings totaling \$0.4 million; iv) gaming equipment totaling \$0.1 million, and v) goodwill totaling \$0.8 million. The results of operations for Rendezvous are included in the condensed consolidated financial statements of the Company from the date of acquisition and were not material.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Pending Business Acquisition

On April 11, 2023, the Company entered into an agreement to acquire a distributed gaming operator in the state of Louisiana with an option to acquire a second distributed gaming operator in the state of Louisiana. In connection therewith, the Company has paid \$4.6 million during the nine months ended September 30, 2023 as an advance against a portion of the purchase price and is recorded within other assets on the condensed consolidated balance sheets. Furthermore, on August 10, 2023, the Company loaned the distributed gaming operator \$0.3 million. In October, 2023, the Company paid an additional advance of \$0.5 million against a portion of the purchase price in consideration for the acquisition of additional assets, as contemplated by the terms of the agreement.

2022 Business Acquisitions*Progressive*

On December 15, 2022, Century, the Company's wholly owned subsidiary, acquired from DEP, Inc. ("Progressive"), a gaming operator in Montana, certain gaming assets and locations. The acquisition of Progressive added 26 Montana gaming locations and approximately 300 gaming terminals to the Century portfolio. The total purchase price was \$6.4 million, which Century paid in cash at closing. The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with Topic 805. The purchase price was allocated to the following assets: i) gaming terminals and amusement equipment totaling \$0.9 million; ii) location contracts totaling \$4.3 million; and iii) goodwill totaling \$1.2 million.

River City

On September 9, 2022, the Company acquired from River City Amusement Company ("River City") all of its operating assets in Nebraska, Iowa and South Dakota. River City's operations in these states consist of the ownership and operation of MAD and amusement equipment, as well as ATMs in the approximately 120 locations it serves. The total purchase price was approximately \$2.8 million, which the Company paid in cash at closing. The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with Topic 805. The purchase price was allocated to the following assets: i) gaming terminals and equipment totaling \$0.1 million; ii) amusement and other equipment totaling \$0.9 million; iii) location contracts totaling \$1.7 million; and iv) cash totaling \$0.1 million.

VVS

On August 1, 2022, the Company acquired from VVS, Inc. ("VVS"), a licensed distributor of MADs in Nebraska, substantially all of its MAD and ATM assets. The acquisition of VVS added approximately 250 locations in the greater Lincoln area. The total purchase price was approximately \$12.0 million, of which the Company paid approximately \$9.5 million in cash at closing. The remaining \$2.5 million of contingent consideration was paid in cash in the third quarter of 2023 as the net revenue targets outlined in the purchase agreement were achieved. The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with Topic 805. The purchase price was allocated to the following assets: i) gaming terminals and equipment totaling \$0.9 million; ii) amusement and other equipment totaling \$3.9 million; and iii) location contracts totaling \$7.2 million.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Century

On June 1, 2022, the Company completed its previously announced acquisition of all of the outstanding equity interests of Century Gaming, Inc. (“Century”) pursuant to the terms of a Securities Purchase Agreement (the “Purchase Agreement”), dated March 2, 2021, by and among Century, the shareholders of Century, and the Company. Century is Montana’s largest gaming operator and a leader in the Nevada gaming market as well as a manufacturer of gaming terminals.

The acquisition aggregate purchase consideration transferred totaled \$164.3 million, which included: i) a cash payment made at closing of \$45.5 million to the equity holders of Century; ii) repayment of \$113.2 million of Century's indebtedness; and iii) 515,622 shares of the Company’s Class A-1 common stock issued to certain members of Century’s management with a fair value of \$5.6 million on the acquisition date. The cash payments were financed using cash from a draw of approximately \$160 million from the Company’s revolving credit facility and delayed draw term loan facility under the Credit Agreement.

The acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805. The purchase price has been preliminarily allocated to the tangible assets and identifiable intangible assets acquired and liabilities assumed based upon their estimated fair values. The areas of the purchase price allocation that are not yet finalized are primarily related to the valuation of location contracts, inventory, property and equipment, and final adjustments to working capital. The excess of the purchase price over the tangible and intangible assets acquired and liabilities assumed of \$53.4 million has been recorded as goodwill. The Century acquisition resulted in recorded goodwill as a result of a higher consideration paid driven by the maturity and quality of Century's operations, industry and workforce. Management integrated Century into its existing business structure, which operates as a single reportable segment.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

The following table summarizes the fair value of consideration transferred and the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash paid	\$	158,681
Fair value of stock issued		5,584
Total consideration	\$	164,265
Cash and cash equivalents	\$	33,229
Prepaid expenses		1,563
Accounts receivable		4,394
Inventories		6,441
Income taxes receivable		189
Other current assets		475
Property and equipment		29,302
Location contracts acquired		40,400
Other intangible assets		24,400
Accounts payable and other accrued expenses		(10,766)
Accrued compensation and related expenses		(1,626)
Other long-term liabilities		(446)
Deferred income tax liability		(16,646)
Net assets acquired	\$	110,909
Goodwill	\$	53,356

The results of operations for Century are included in the condensed consolidated financial statements of the Company from the date of acquisition.

Consideration Payable

The Company has a contingent consideration payable related to certain locations, as defined in each 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 September 30, 2023 and December 31, 2022. The contingent consideration accrued is measured at fair value on a recurring basis. The Company presents on its statement of cash flows, payments for consideration payable within 90-days in investing activities, payments after 90-days and up to the acquisition date fair value in financing activities, and payments in excess of the acquisition date fair value in operating activities.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Current and long-term portions of consideration payable consist of the following as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023		December 31, 2022	
	Current	Long-Term	Current	Long-Term
TAV*	\$ 1,756	\$ 488	\$ 1,025	\$ 1,918
Fair Share Gaming*	543	141	951	175
Family Amusement*	2,100	—	2,032	—
Skyhigh*	618	4,690	606	4,779
G3*	—	—	433	—
VVS	—	—	2,442	—
Tom's Amusements*	58	—	58	—
Island*	100	—	100	—
Total	\$ 5,175	\$ 5,319	\$ 7,647	\$ 6,872

* Acquisitions that occurred prior to 2022.

Note 11. Contingent Earnout Share Liability

Pursuant to the terms of the Company's Amended and Restated Certificate of Incorporation, the Company authorized and has available for issuance 10,000,000 shares of 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. The Company concluded that the Class A-2 Common Stock should be reflected as a contingent earnout share liability due to the fact that such shares are not entitled to dividends, voting rights, or a stake in the Company in the case of liquidation. The contingent earnout share liability is recorded at fair value. For more information on how the fair value is determined, see Note 12.

In 2019, 5,000,000 shares of Class A-2 Common Stock were issued, subject to the conditions set forth in a restricted stock agreement (the "Restricted Stock Agreement"), which sets forth the terms upon which the Class A-2 Common Stock will be exchanged for an equal number of validly issued, fully paid and non-assessable Class A-1 Common Stock. The exchange of Class A-2 Common Stock for Class A-1 Common Stock 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 specified triggers, based either on the Company achieving certain last twelve month EBITDA ("LTM EBITDA") thresholds in certain periods or the closing sale price of Class A-1 Common Stock exceeding certain prices over certain trading periods.

In 2020, the market condition for the settlement of Tranche I was satisfied. As a result, 1,666,636 shares of the 1,666,666 shares of Class A-2 Common Stock were converted into Class A-1 Common Stock.

The current thresholds, as approved by a disinterested committee of the Company's board of directors made up of independent directors who do not hold any Class A-2 Common Stock, for the remaining two Tranches are as follows:

- Tranche II, equal to 1,666,667 shares of Class A-2 Common Stock, will be exchanged for Class A-1 Common Stock if the closing sale price of Class A-1 Common Stock on the New York Stock Exchange ("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 shares of Class A-2 Common Stock, will be exchanged for Class A-1 Common Stock if either (i) the LTM EBITDA threshold (A) as of December 31, 2023 is \$198.5 million and (B) March 31, 2024 or June 30, 2024 is \$198.6 million or (ii) the closing sale price of Class A-1 Common Stock on the NYSE equals or exceeds \$16.00 for at least twenty trading days in any consecutive thirty trading day period.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 12. 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, 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 NYSE. 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.

Assets measured at fair value

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

	September 30, 2023	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate caplets	19,168	—	19,168	—
Total	<u>\$ 19,168</u>	<u>\$ —</u>	<u>\$ 19,168</u>	<u>\$ —</u>

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

	December 31, 2022	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investment in convertible notes	\$ 32,065	\$ —	\$ —	\$ 32,065
Interest rate caplets	19,919	—	19,919	—
Total	\$ 51,984	\$ —	\$ 19,919	\$ 32,065

Investment in convertible notes

As described in Note 4, after the IGB Administrator’s denial of the transfer of the equity interest in Gold Rush on December 2, 2021, the Company concluded that the fair value of the convertible notes should be calculated as principal plus interest accrued as of December 31, 2021. The Company had considered interest as an input to the accounting fair value as of December 31, 2022. This valuation of the Company’s investment in convertible notes is considered to be a Level 3 fair value measurement as the significant inputs are unobservable. The Company reached a settlement with Gold Rush in the second quarter of 2023, which provided for the full repayment of the outstanding principal and interest accrued on the convertible notes.

Interest rate caplets

The Company determines the fair value of the interest rate caplets using quotes that are based on models whose inputs are observable LIBOR/SOFR forward interest rate curves. The valuation of the interest rate caplets is considered to be a Level 2 fair value measurement as the significant inputs are observable. Unrealized changes in the fair value of the interest rate caplets are classified within other comprehensive income on the accompanying condensed consolidated statements of operations and comprehensive income. Realized gains on the interest rate caplets are recorded to interest expense, net on the accompanying condensed consolidated statements of operations and comprehensive income and included within cash payments for interest, net on the condensed consolidated statements of cash flow.

Liabilities measured at fair value

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

	September 30, 2023	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent consideration	\$ 6,151	\$ —	\$ —	\$ 6,151
Contingent earnout shares	34,351	—	34,351	—
Warrants	13	—	13	—
Total	\$ 40,515	\$ —	\$ 34,364	\$ 6,151

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

	December 31, 2022	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Contingent consideration	\$ 9,543	\$ —	\$ —	\$ 9,543
Contingent earnout shares	23,288	—	23,288	—
Warrants	13	—	13	—
Total	<u>\$ 32,844</u>	<u>\$ —</u>	<u>\$ 23,301</u>	<u>\$ 9,543</u>

Contingent Consideration

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 used 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. The valuation of the Company's contingent consideration is considered to be a Level 3 fair value measurement as the significant inputs are unobservable and require significant judgment or estimation. Changes in the fair value of contingent consideration liabilities are classified within other expenses, net on the accompanying condensed consolidated statements of operations and comprehensive income.

Contingent earnout shares

The Company determined the fair value of the contingent earnout shares based on the market price of the Company's Class A-1 Common Stock. The liability, by tranche, is then stated at present value based on i) an interest rate derived from the Company's borrowing rate and the applicable risk-free rate and ii) an estimate on when it expects the contingent earnout shares to convert to Class A-1 Common Stock. The valuation of the Company's contingent consideration is considered to be a Level 2 fair value measurement. Changes in the fair value of contingent earnout shares are included within loss (gain) on change in fair value of contingent earnout shares on the accompanying condensed consolidated statements of operations and comprehensive income.

Warrants

The Company has 5,144 warrants outstanding as of September 30, 2023, the liability for which is included in other long-term liabilities on the condensed consolidated balance sheets. The Company determined the fair value of its warrants by using a Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires inputs such as the fair value of the Company's Class A-1 Common Stock, the risk-free interest rate, expected term, expected dividend yield and expected volatility. The Company's valuation of its warrants is considered to be a Level 2 fair value measurement. Changes in the fair value of the warrants are included within gain on change in fair value of warrants on the accompanying condensed consolidated statements of operations and comprehensive income, if applicable. There was no change in the fair value of the warrants for the three and nine months ended September 30, 2023 and 2022.

There were no transfers in or out of Level 3 for the periods presented.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 13. Stockholders' Equity

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:

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.

Treasury Stock

On November 22, 2021, the Company's Board of Directors approved a share repurchase program of up to \$200 million of shares of Class A-1 Common Stock. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and alternative investment opportunities. Under the repurchase program, repurchases can be made from time to time using a variety of methods, including open market purchases or privately negotiated transactions, in compliance with the rules of the United States Securities and Exchange Commission and other applicable legal requirements. The repurchase program does not obligate the Company to acquire any particular amount of shares, and the repurchase program may be suspended or discontinued at any time at the Company's discretion. As of September 30, 2023, the Company acquired a total of 10,010,374 shares under the plan at a total purchase price of \$103.6 million, of which 1,665,091 shares at a total purchase price of \$15.7 million were acquired during the nine months ended September 30, 2023.

Note 14. Stock-based Compensation

The Company grants various types of stock-based compensation awards. The Company measures its stock-based compensation expense based on the grant date fair value of the award and recognizes the expense over the requisite service period for the respective award.

Under the Accel Entertainment, Inc. Long Term Incentive Plan, the Company issued 356,786 restricted stock units ("RSUs") to the Board of Directors and certain eligible employees during the first quarter of 2023, which will vest over a period of 3 years for employees and by the end of 2023 for the Board of Directors. The Company also issued 182,494 performance-based restricted stock units ("PSUs") to certain eligible employees during the first quarter of 2023, which will vest after 3 years. The numbers of shares earned upon vesting of the PSUs, if any, is based on the attainment of performance goals over the performance period, subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances. The estimated grant date fair value of these RSUs and PSUs totaled \$4.8 million.

The Company issued 402,202 RSUs to the Board of Directors and certain eligible employees during the second quarter of 2023, which will vest over a period of 3 to 4 years for employees and by the end of 2023 for the Board of Directors. The Company also issued 520,247 PSUs to certain eligible employees during the second quarter of 2023, which will vest after 3 years. The estimated grant date fair value of these RSUs and PSUs totaled \$5.8 million.

The Company issued 171,750 RSUs to certain eligible employees during the third quarter of 2023, which will vest over a period of 3 to 4 years. The estimated grant date fair value of these RSUs totaled \$1.9 million.

Stock-based compensation expense, which pertains to the Company's stock options, RSUs and PSUs, was \$2.7 million and \$7.0 million for the three and nine months ended September 30, 2023, respectively. In comparison, stock-based compensation expense was \$1.1 million and \$5.0 million for the three and nine months ended September 30, 2022, respectively. Stock-based compensation expense is included within general and administrative expenses in the condensed consolidated statements of operations and other comprehensive income.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 15. Income Taxes

The Company recognized income tax expense of \$4.6 million and \$16.7 million for the three and nine months ended September 30, 2023, respectively. In comparison, income tax expense was \$4.9 million and \$16.5 million for the three and nine months ended September 30, 2022, respectively.

The Company calculates its 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 30.7% and 36.1% for the three and nine months ended September 30, 2023, respectively. In comparison, the effective tax rate was 18.0% and 21.4% for the three and nine months ended September 30, 2022, respectively. The Company's effective income tax rate can vary from period to period depending on, among other factors, the amount of permanent tax adjustments and discrete items. The change in the fair value of the contingent earnout shares is considered a discrete item for income tax purposes and was the primary driver for the fluctuations in the tax rate year over year.

Note 16. Commitments and Contingencies

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business, including related to employee matters, employment of professionals 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 gaming terminals 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 an exclusive location agreement with Accel. In late August and early September 2012, each of the Defendant Establishments signed a separate location agreement with the Company, purporting to grant the Company the exclusive right to operate gaming terminals 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 the Company, Rowell, and other parties in the Circuit Court of Cook County, Illinois (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, 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 judgments 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 gaming terminals at each of the Defendant Establishments as a result of the J&J Assigned Agreements. The Company was granted leave to intervene in all

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

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 gaming terminal 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 were recently adjudicated by the IGB, largely in the Company's favor, and J&J has filed a new lawsuit to challenge the IGB's rulings. The Company does not have a present estimate regarding the potential damages, if any, that could potentially be awarded in this litigation and, accordingly, has 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, Illinois against Jason Rowell and other parties related to Mr. Rowell's breaches of his non-compete agreement with Accel. The Company alleged that Mr. Rowell and a competitor were working together to interfere with the Company's customer relationships. On November 7, 2019, Mr. Rowell filed a lawsuit in the Circuit Court of Cook County, Illinois 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 has answered the complaint and asserted a counterclaim and intends to defend itself against the allegations. Pre-trial discovery is ongoing as of the date of this report. Mr. Rowell's claims and the Company's claims are both being litigated in this lawsuit, while the original lawsuit remains pending against the other defendants.

On July 2, 2019, Illinois Gaming Investors, LLC filed a lawsuit against the Company. The lawsuit alleges that a current employee violated his non-competition agreement with Illinois Gaming Investors, LLC, and together with the Company, wrongfully solicited prohibited licensed video gaming locations. The parties settled this dispute in April 2022.

On December 18, 2020, the Company received a disciplinary complaint from the IGB alleging violations of the Video Gaming Act and the IGB's Adopted Rules for Video Gaming. The disciplinary complaint sought to fine the Company in the amount of \$5 million. On July 6, 2023, the IGB and the Company entered into a settlement agreement for \$1.1 million of which \$1.0 million is the fine for the alleged conduct and \$0.1 million is for reimbursement of administrative and investigative costs. The amount was paid in the third quarter of 2023. As a result of the settlement agreement, the Company has agreed to review similar initiatives with the IGB before implementing a new program or making any public announcements, require additional annual training of its employees, and provide additional compliance disclosures to the IGB.

On March 9, 2022, the Company filed a lawsuit in the Circuit Court of Cook County, Illinois against Gold Rush relating to the Gold Rush convertible notes. The complaint sought damages for breach of contract and the implied covenant of good faith and fair dealing as well as unjust enrichment. On June 22, 2022, Gold Rush filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company. The lawsuit alleged that the Company tortiously interfered with Gold Rush's business activities and engaged in misconduct with respect to the Gold Rush convertible notes. On April 22, 2022, the Company filed a petition in the Circuit Court of Cook County, Illinois to judicially review the IGB's decision to deny the requested transfer of Gold Rush common stock in respect of the Company's conversion of the convertible notes. Discovery ensued on these lawsuits but both suits were dismissed with prejudice as a result of the previously mentioned settlement between the Company and Gold Rush on the convertible notes. For more information, see Note 4.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

On March 25, 2022, Midwest Electronics Gaming LLC (“Midwest”) filed an administrative review action against the Illinois Gaming Board, the Company and J&J in the Circuit Court of Cook County, Illinois seeking administrative review of decisions of the IGB ruling in favor of the Company and J&J and against Midwest regarding the validity of certain use agreements covering locations currently serviced by Midwest. No monetary damages are sought against the Company. A responsive pleading is not yet due.

In July 2022, an enforcement action was brought against the Company by an Illinois municipality related to an alleged violation of an ordinance requiring the collection of an additional tax, the enforceability of which is currently being contested by the Illinois Gaming Machine Operators Association. Rather than litigate the alleged violation, the Company pled no contest and paid an initial penalty to the municipality in October 2022. The Company incurred a similar penalty each month for the remaining months of 2022. After further negotiations with the municipality, in July 2023, the amount of the penalty for 2023 was increased and was made effective retroactively to the beginning of the year.

In February 2023, an Illinois municipality issued an order against the Company for the alleged failure to pay a terminal operator tax (“TO Tax”) for the privilege of operating gaming terminals within the municipality. The TO Tax was adopted by the municipality on June 8, 2021, but there was no enforcement of this tax until the Company was issued a notice of hearing in February 2023. In April 2023, the Company, along with numerous other terminal operators, filed a complaint in the Circuit Court of Cook County, Illinois contesting the validity and enforceability of the TO Tax and won a temporary restraining order to stay the order. Currently, the matter remains pending as a result of a motion to consolidate and to finalize the assignment of the judge.

The results for the nine months ended September 30, 2023 included a loss of \$1.4 million related to these matters, which is included within general and administrative expenses in the condensed consolidated statements of operations and other comprehensive income. The results for the nine months ended September 30, 2022 included a loss of \$1.2 million, of which \$1.0 million was recorded within other expenses, net and \$0.2 million was recorded in general and administrative expenses in the condensed consolidated statements of operations and other comprehensive income. The Company paid legal settlements totaling \$1.3 million and \$1.6 million during the nine months ended September 30, 2023 and 2022, respectively.

Note 17. Related-Party Transactions

Subsequent to the Company's acquisition of certain assets of Fair Share Gaming, LLC (“Fair Share”), G3 Gaming, LLC (“G3”), and Tom's Amusement Company, Inc., (“Tom's Amusements”), the sellers became employees of the Company.

Consideration payable to the Fair Share seller was \$0.7 million and \$1.1 million as of September 30, 2023 and December 31, 2022, respectively. Payments to the Fair Share seller under the acquisition agreement were \$0.8 million and \$1.5 million during the nine months ended September 30, 2023 and 2022, respectively.

Consideration payable to the G3 sellers was \$0.4 million as of December 31, 2022. Payments to the G3 sellers under the acquisition agreement were \$0.5 million during the nine months ended September 30, 2023. There were no payments made to the G3 sellers during the nine months ended September 30, 2022.

Consideration payable to the Tom's Amusements seller was \$0.1 million as of both September 30, 2023 and December 31, 2022. There were no payments to the Tom's Amusements seller during the nine months ended September 30, 2023 and \$1.4 million during the nine months ended September 30, 2022.

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. Accel paid Much Shelist \$0.3 million and \$0.2 million for the nine months ended September 30, 2023 and 2022, respectively. These payments were included in general and administrative expenses within the condensed consolidated statements of operations and comprehensive income.

Accel Entertainment, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 18. Earnings Per Share

The components of basic and diluted earnings per share (“EPS”) were as follows for the three and nine months ended September 30 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 10,450	\$ 22,444	\$ 29,615	\$ 60,696
Basic weighted average outstanding shares of common stock	85,865	89,992	86,305	91,299
Dilutive effect of stock-based awards for common stock	1,249	536	717	646
Diluted weighted average outstanding shares of common stock	<u>87,114</u>	<u>90,528</u>	<u>87,022</u>	<u>91,945</u>
Earnings per common share:				
Basic	\$ 0.12	\$ 0.25	\$ 0.34	\$ 0.66
Diluted	\$ 0.12	\$ 0.25	\$ 0.34	\$ 0.66

Anti-dilutive stock-based awards, contingent earnout shares and warrants excluded from the calculations of diluted EPS were 4,414,553 and 5,178,908 as of September 30, 2023 and 2022, respectively.

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, those discussed in “Risk Factors” in this Quarterly Report on Form 10-Q, and those discussed in the section titled “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2022. 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, 2022.

Company Overview

We believe 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 markets we serve. Our business consists of the installation, maintenance and operation of gaming terminals, 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. We also operate stand-alone ATMs in gaming and non-gaming locations.

Our gaming-as-a-service platform provides local businesses with a turnkey, capital efficient gaming solution. We own all of our gaming equipment and manage the entire operating process for our location partners. We also offer our location partners gaming solutions that appeal to players who patronize those businesses. We devote significant resources to location partner retention, and seek to provide prompt, personalized player service and support, which we believe is unparalleled among other distributed gaming operators.

We currently operate as a distributed gaming operator in the following states:

- Illinois – we have been a licensed terminal operator by the Illinois Gaming Board (“IGB”) since 2012,
- Montana – we were granted a manufacturer, distributor and route operator license by the Gambling Control Division of the Montana Department of Justice in June 2022, which has been renewed through June 2024,
- Nevada – we were granted a two-year terminal operator license by the Nevada Gaming Commission in June 2022,
- Georgia – we received approval from the Georgia Lottery Corporation as a Master Licensee in July 2020,
- Iowa – we are registered with the Iowa Department of Inspections and Appeals to conduct operations since December 2021,
- Nebraska – we have been a licensed distributor of mechanical amusement devices since June 2022,
- Pennsylvania – we have held a license from the Pennsylvania Gaming Control Board since November 2020, and commenced operations in the second quarter of 2023.

Through our wholly owned subsidiary, Grand Vision Gaming, we also manufacture gaming terminals in the Montana, Nevada, South Dakota, Louisiana and West Virginia markets.

We are subject to the various gaming regulations in the states in which we operate, as well as various other federal, state and local laws and regulations.

Century Acquisition

On June 1, 2022, we completed our previously announced acquisition of all of the outstanding equity interests of Century Gaming, Inc., a Montana corporation. The aggregate purchase consideration was \$164.3 million, which included: (i) a cash payment made at closing of \$45.5 million to the equity holders of Century; (ii) repayment of \$113.2 million of Century's indebtedness; and (iii) 515,622 shares of our Class A-1 common stock issued to certain members of Century's management with a fair value of \$5.6 million on the acquisition date. The cash payments were financed using cash from a draw of approximately \$160 million from our revolving credit facility and delayed draw term loan facility under our senior secured credit facility. Our financial results for the three and nine months ended September 30, 2023 and the three months ended September 30, 2022 includes the results of Century while our results for the nine months ended September 30, 2022 only include the results of Century from the date of acquisition.

Macroeconomic Factors

Ongoing interest rate increases, persistent inflation and actual or perceived instability in the U.S. and global banking systems may increase the risk of an economic recession and volatility and dislocation in the capital or credit markets in the United States and other markets globally. Our location partners may be adversely impacted by changes in overall economic and financial conditions, and certain location partners may cease operations in the event of a recession or inability to access financing. Furthermore, our revenue is largely driven by players' disposable incomes and level of gaming activity, and economic conditions that adversely impact players' ability and desire to spend disposable income at our locations partners may adversely affect our results of operations and cash flows. To date, we have not observed material impacts in our business or outlook, but there can be no assurance that, in the event of a recession, levels of gaming activity would not be adversely affected. Further, as described in more detail below, we have observed certain increases in our costs, particularly higher wages, and increased interest expense on our debt. In addition, during 2023, we accelerated certain of our capital expenditures related to gaming machines and related components to manage our supply chain. We intend to continue to monitor macroeconomic conditions closely and may determine to take certain financial or operational actions in response to such conditions to the extent our business begins to be adversely impacted.

Components of Performance

Revenues

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

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

Manufacturing. Manufacturing revenue represents sales of gaming terminals by Grand Vision Gaming, a wholly owned subsidiary of Century, which is a designer and manufacturer of gaming terminals and related equipment.

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

Operating Expenses

Cost of revenue. Cost of revenue consists of (i) taxes on net gaming revenue that is payable to the appropriate jurisdiction, (ii) licenses, permits and other fees required for the operation of gaming terminals and other equipment, (iii) location revenue share, which is governed by local governing bodies and location contracts, (iv) ATM and amusement commissions payable to locations, and (v) ATM and amusement fees.

Cost of goods sold. Cost of goods sold consists of costs associated with the sale of gaming terminals and related equipment.

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, and non-capitalizable parts expenses. Operating expenses are generally proportionate to the number of locations and gaming terminals. G&A expense includes payroll and related expense for account managers, business development managers, marketing, and other corporate personnel. In addition, G&A expense also 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 intangible assets and route and customer acquisition costs. Route and customer acquisition costs consist of fees paid at the inception of contracts entered into with third parties and our gaming locations, which allows us to install and operate 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 our incremental borrowing rate associated with its long-term debt. Route and customer acquisition costs are amortized on a straight-line basis over 18 years, which is the expected 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 15 years.

Other intangible assets acquired in a business acquisition are recorded at fair value and then amortized as an intangible asset on a straight-line basis over their estimated 7 to 20-year useful lives.

Interest expense, net

Interest expense, net consists of interest on our current credit facilities, amortization of financing fees, accretion of interest on route and customer acquisition costs payable, and interest (income) expense on the interest rate caplets. Interest on the current credit facility is payable monthly on unpaid balances at the variable per annum LIBOR/SOFR 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.

Income tax expense

Income tax expense consists mainly of taxes payable to federal, 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 September 30, 2023 and 2022:

(in thousands, except %'s)	Three Months Ended September 30,		Increase / (Decrease)	
	2023	2022	Change (\$)	Change (%)
Revenues:				
Net gaming	\$ 274,123	\$ 255,606	\$ 18,517	7.2 %
Amusement	5,411	4,860	551	11.3 %
Manufacturing	3,334	2,489	845	33.9 %
ATM fees and other	4,629	4,012	617	15.4 %
Total net revenues	287,497	266,967	20,530	7.7 %
Operating expenses:				
Cost of revenue (exclusive of depreciation and amortization expense shown below)	198,743	185,878	12,865	6.9 %
Cost of manufacturing goods sold (exclusive of depreciation and amortization expense shown below)	2,065	1,656	409	24.7 %
General and administrative	45,183	39,796	5,387	13.5 %
Depreciation and amortization of property and equipment	9,405	8,136	1,269	15.6 %
Amortization of intangible assets and route and customer acquisition costs	5,299	5,156	143	2.8 %
Other expenses, net	1,682	3,106	(1,424)	(45.8)%
Total operating expenses	262,377	243,728	18,649	7.7 %
Operating income	25,120	23,239	1,881	8.1 %
Interest expense, net	8,415	6,239	2,176	34.9 %
Loss (gain) on change in fair value of contingent earnout shares	1,625	(10,358)	11,983	115.7 %
Income before income tax expense	15,080	27,358	(12,278)	(44.9)%
Income tax expense	4,630	4,914	(284)	(5.8)%
Net income	<u>\$ 10,450</u>	<u>\$ 22,444</u>	<u>\$ (11,994)</u>	<u>(53.4)%</u>

Revenues

Total revenues for the three months ended September 30, 2023 were \$287.5 million, an increase of \$20.5 million, or 7.7%, compared to the prior-year period. This increase was primarily driven by higher net gaming revenue of \$18.5 million, which reflected an increase in gaming terminals and locations. Net revenues by state are presented below (in thousands):

(in thousands)	Three Months Ended September 30,	
	2023	2022
Net revenues by state:		
Illinois	\$ 212,113	\$ 200,914
Montana	39,362	33,456
Nevada	28,003	28,439
Other	8,019	4,158
Total net revenues	<u>\$ 287,497</u>	<u>\$ 266,967</u>

Cost of revenue

Cost of revenue for the three months ended September 30, 2023 was \$198.7 million, an increase of \$12.9 million, or 6.9%, compared to the prior-year period, driven by higher net gaming revenue, as described above.

Cost of manufacturing goods sold

Cost of manufacturing goods sold for the three months ended September 30, 2023 was \$2.1 million, an increase of \$0.4 million, or 24.7%, compared to the prior-year period due primarily to higher manufacturing revenue.

General and administrative

General and administrative expenses for the three months ended September 30, 2023 were \$45.2 million, an increase of \$5.4 million, or 13.5%, compared to the prior-year period. The increase was attributable to higher payroll-related costs, as we continue to grow our operations, as well as higher stock-based compensation expense and parts and repair expense.

Depreciation and amortization of property and equipment

Depreciation and amortization of property and equipment for the three months ended September 30, 2023 was \$9.4 million, an increase of \$1.3 million, or 15.6%, compared to the prior-year period due to an increased number of gaming terminals and locations.

Amortization of intangible assets and route and customer acquisition costs

Amortization of intangible assets and route and customer acquisition costs for the three months ended September 30, 2023 was \$5.3 million, an increase of \$0.1 million, or 2.8%, compared to the prior-year period.

Other expenses, net

Other expenses, net for the three months ended September 30, 2023 were \$1.7 million, a decrease of \$1.4 million, or 45.8%, compared to the prior-year period. The decrease was primarily attributable to lower non-recurring expenses related to lobbying efforts, partially offset by higher fair value adjustments associated with the revaluation of contingent consideration liabilities.

Interest expense, net

Interest expense, net for the three months ended September 30, 2023 was \$8.4 million, an increase of \$2.2 million, or 34.9%, compared to the prior-year period primarily due to higher interest rates, partially offset by the benefit realized on our interest rate caplets. For the three months ended September 30, 2023, the weighted average interest rate, excluding the impact of our interest rate caplets, was approximately 7.6% compared to a rate of approximately 4.3% for the prior-year period.

Loss (gain) on change in fair value of contingent earnout shares

Loss on the change in fair value of contingent earnout shares for the three months ended September 30, 2023 was \$1.6 million, compared to the prior-year period, which had a gain of \$10.4 million. The change was primarily due to the change in the market value of our Class A-1 common stock, which is the primary input to the valuation of the contingent earnout shares.

Income tax expense

Income tax expense for the three months ended September 30, 2023 was \$4.6 million, a decrease of \$0.3 million, or 5.8%, compared to the prior-year period. The effective tax rate for the three months ended September 30, 2023 was 30.7% compared to 18.0% in the prior-year period. Our effective income tax rate can vary from period to period depending on, among other factors, the amount of permanent tax adjustments and discrete items. The change in the fair value of the contingent earnout shares is considered a discrete item for tax purposes and was the primary driver for the fluctuations in the tax rate year over year.

The following table summarizes our results of operations on a consolidated basis for the nine months ended September 30, 2023 and 2022:

(in thousands, except %'s)	Nine Months Ended September 30,		Increase / (Decrease)	
	2023	2022	Change (\$)	Change (%)
Revenues:				
Net gaming	\$ 831,054	\$ 662,491	168,563	25.4 %
Amusement	17,839	14,543	3,296	22.7 %
Manufacturing	9,886	3,408	6,478	190.1 %
ATM fees and other	14,573	11,285	3,288	29.1 %
Total net revenues	873,352	691,727	181,625	26.3 %
Operating expenses:				
Cost of revenue (exclusive of depreciation and amortization expense shown below)	604,603	473,164	131,439	27.8 %
Cost of manufacturing goods sold (exclusive of depreciation and amortization expense shown below)	5,627	2,421	3,206	132.4 %
General and administrative	132,421	103,634	28,787	27.8 %
Depreciation and amortization of property and equipment	27,914	20,575	7,339	35.7 %
Amortization of intangible assets and route and customer acquisition costs	15,825	12,278	3,547	28.9 %
Other expenses, net	5,006	7,894	(2,888)	(36.6)%
Total operating expenses	791,396	619,966	171,430	27.7 %
Operating income	81,956	71,761	10,195	14.2 %
Interest expense, net	24,546	14,031	10,515	74.9 %
Loss (gain) on change in fair value of contingent earnout shares	11,063	(19,497)	30,560	156.7 %
Income before income tax expense	46,347	77,227	(30,880)	(40.0)%
Income tax expense	16,732	16,531	201	1.2 %
Net income	<u>\$ 29,615</u>	<u>\$ 60,696</u>	<u>\$ (31,081)</u>	<u>(51.2)%</u>

Revenues

Total revenues for the nine months ended September 30, 2023 were \$873.4 million, an increase of \$181.6 million, or 26.3%, compared to the prior-year period. This increase was driven primarily by higher net gaming revenue of \$168.6 million, or 25.4%, and higher manufacturing revenue of \$6.5 million, or 190.1%. Higher net gaming revenue for the nine months ended September 30, 2023 was attributable to an increase in gaming terminals and locations due primarily to the acquisition of Century. Net revenues by state are presented below (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Net revenues by state:		
Illinois	\$ 647,903	\$ 601,735
Montana	115,088	44,282
Nevada	87,833	37,359
All other	22,528	8,351
Total net revenues	<u>\$ 873,352</u>	<u>\$ 691,727</u>

Cost of revenue

Cost of revenue for the nine months ended September 30, 2023 was \$604.6 million, an increase of \$131.4 million, or 27.8%, compared to the prior-year period due primarily to higher gaming revenue, as described above.

Cost of manufacturing goods sold

Cost of manufacturing goods sold for the nine months ended September 30, 2023 was \$5.6 million, an increase of \$3.2 million, or 132.4%, compared to the prior-year period due primarily to higher manufacturing revenue, as described above.

General and administrative

General and administrative expenses for the nine months ended September 30, 2023 were \$132.4 million, an increase of \$28.8 million, or 27.8%, compared to the prior-year period. The increase was attributable to higher payroll-related costs, as we continue to grow our operations, as well as higher parts and repair expense, higher stock-based compensation expense, and the settlement with the IGB of \$1.1 million recorded in the second quarter of 2023.

Depreciation and amortization of property and equipment

Depreciation and amortization of property and equipment for the nine months ended September 30, 2023 was \$27.9 million, an increase of \$7.3 million, or 35.7%, compared to the prior-year period due to an increased number of locations and gaming terminals primarily attributable to the acquisition of Century.

Amortization of intangible assets and route and customer acquisition costs

Amortization of intangible assets and route and customer acquisition costs for the nine months ended September 30, 2023 was \$15.8 million, an increase of \$3.5 million, or 28.9%, compared to the prior-year period due to an increase in location contracts acquired and amortization expense on other intangible assets acquired with Century.

Other expenses, net

Other expenses, net for the nine months ended September 30, 2023 were \$5.0 million, a decrease of \$2.9 million, or 36.6%, compared to the prior-year period due to lower non-recurring expenses related to lobbying efforts and new market development and a \$1.7 million gain recognized in the second quarter of 2023 on the convertible note settlement as discussed in Note 4 to the condensed consolidated financial statements, partially offset by higher fair value adjustments associated with the revaluation of contingent consideration liabilities.

Interest expense, net

Interest expense, net for the nine months ended September 30, 2023 was \$24.5 million, an increase of \$10.5 million, or 74.9%, compared to the prior-year period primarily due to an increase in average outstanding debt and higher interest rates, partially offset by the benefit realized on our interest rate caplets. The weighted average interest rate, excluding the impact of the interest rate caplets, was approximately 7.2% for the nine months ended September 30, 2023 compared to 3.7% in the prior-year period.

Loss (gain) on change in fair value of contingent earnout shares

Loss on the change in fair value of contingent earnout shares for the nine months ended September 30, 2023 was \$11.1 million, compared to the prior-year period, which had a gain of \$19.5 million. The change was primarily due to the change in the market value of our Class A-1 common stock, which is the primary input to the valuation of the contingent earnout shares.

Income tax expense

Income tax expense for the nine months ended September 30, 2023 was \$16.7 million, an increase of \$0.2 million, or 1.2%, compared to the prior-year period. The effective tax rate for the nine months ended September 30, 2023 was 36.1% compared to 21.4% in the prior-year period. Our effective income tax rate can vary from period to period depending on, among other factors, the amount of permanent tax adjustments and discrete items. The change in the fair value of the contingent earnout shares is considered a discrete item for tax purposes and was the primary driver for the fluctuations in the tax rate year over year.

Key Business Metrics

We use 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 U.S. GAAP, and therefore should not be viewed as indicators of operational performance. Our management uses these key business metrics for financial planning, strategic planning and employee compensation decisions. The key business metrics include:

- Number of locations and;
- Number of gaming terminals

We also periodically review and revise our key business metrics to reflect changes in our business.

Number of locations

The number of locations is based on a combination of third-party portal data and data from our internal systems. We utilize this metric to continually monitor growth from existing locations, organic openings, purchased locations, and competitor conversions. Competitor conversions occur when a location chooses to change terminal operators.

The following table sets forth information with respect to our primary locations:

	As of September 30,		Increase / (Decrease)	
	2023	2022	Change	Change %
Illinois	2,724	2,596	128	4.9 %
Montana	611	586	25	4.3 %
Nevada	352	335	17	5.1 %
Total locations	3,687	3,517	170	4.8 %

Number of gaming terminals

The number of gaming terminals in operation is based on a combination of third-party portal data and data from our internal systems. We utilize this metric to continually monitor growth from existing locations, organic openings, purchased locations, and competitor conversions.

The following table sets forth information with respect to the number of gaming terminals in the primary locations:

	As of September 30,		Increase / (Decrease)	
	2023	2022	Change	Change %
Illinois	15,020	14,033	987	7.0 %
Montana	6,252	5,782	470	8.1 %
Nevada	2,744	2,614	130	5.0 %
Total gaming terminals	24,016	22,429	1,587	7.1 %

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. Our management believes Adjusted EBITDA and Adjusted net income enhance the understanding of our underlying drivers of profitability and trends in our 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 also believes that these non-GAAP financial measures are used by investors, analysts and other interested parties as measures of financial performance and to evaluate our ability to fund capital expenditures, service debt obligations and meet working capital requirements.

Adjusted net income and Adjusted EBITDA

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 10,450	\$ 22,444	\$ 29,615	\$ 60,696
Adjustments:				
Amortization of intangible assets and route and customer acquisition costs ⁽¹⁾	5,299	5,156	15,825	12,278
Stock-based compensation ⁽²⁾	2,718	1,070	6,973	4,956
Loss (gain) on change in fair value of contingent earnout shares ⁽³⁾	1,625	(10,358)	11,063	(19,497)
Other expenses, net ⁽⁴⁾	1,682	3,106	5,006	7,894
Tax effect of adjustments ⁽⁵⁾	(2,707)	(2,486)	(7,916)	(7,274)
Adjusted net income	19,067	18,932	60,566	59,053
Depreciation and amortization of property and equipment	9,405	8,136	27,914	20,575
Interest expense, net	8,415	6,239	24,546	14,031
Emerging markets ⁽⁶⁾	(86)	418	(805)	1,619
Income tax expense	7,337	7,400	24,648	23,805
Adjusted EBITDA	\$ 44,138	\$ 41,125	\$ 136,869	\$ 119,083

⁽¹⁾ Amortization of intangible assets and route and customer acquisition costs consist of upfront cash payments and future cash payments to third-party sales agents to acquire the location partners that are not connected with a business acquisition, as well as the amortization of other intangible assets. We amortize the upfront cash payment over the life of the contract, including expected renewals, beginning on the date the location goes live, and recognize 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 we do 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 15 years. “Amortization of intangible assets and route and customer acquisition costs” aggregates the non-cash amortization charges relating to upfront route and customer acquisition cost payments and location contracts acquired, as well as the amortization of other intangible assets.

- (2) Stock-based compensation consists of options, restricted stock units, and performance-based restricted stock units.
- (3) Loss (gain) on change in fair value of contingent earnout shares represents a non-cash fair value adjustment at each reporting period end related to the value of these contingent shares. Upon achieving such contingency, shares of Class A-2 common stock convert to Class A-1 common stock resulting in a non-cash settlement of the obligation.
- (4) Other expenses, net consists of (i) non-cash expenses including the remeasurement of contingent consideration liabilities, (ii) non-recurring lobbying and legal expenses related to distributed gaming expansion in current or prospective markets, and (iii) other non-recurring expenses.
- (5) Calculated by excluding the impact of the non-GAAP adjustments from the current period tax provision calculations.
- (6) Emerging markets consist of the results, on an Adjusted EBITDA basis, for non-core jurisdictions where our operations are developing. Markets are no longer considered emerging when we have installed or acquired at least 500 gaming terminals in the jurisdiction, or when 24 months have elapsed from the date we first install or acquire gaming terminals in the jurisdiction, whichever occurs first. We currently view Iowa and Pennsylvania as emerging markets. Prior to April 2023, Nebraska was considered an emerging market. Prior to July 2022, Georgia was considered an emerging market.

Adjusted EBITDA for the three months ended September 30, 2023, was \$44.1 million, an increase of \$3.0 million, or 7.3%, compared to the prior-year period. Adjusted EBITDA for the nine months ended September 30, 2023, was \$136.9 million, an increase of \$17.8 million, or 14.9%, compared to the prior-year period. The increase for the three months ended September 30, 2023 was attributable to an increase in the number of locations and gaming terminals partially offset by higher payroll-related costs and parts and repair expense, while the increase for the nine months ended September 30, 2023 was also impacted by the acquisition of Century.

Liquidity and Capital Resources

In order to maintain sufficient liquidity, we review our cash flow projections and available funds with our Board of Directors to consider modifying our capital structure and seeking additional sources of liquidity, if needed. The availability of additional liquidity options will depend on the economic and financial environment, our creditworthiness, our historical and projected financial and operating performance, and our continued compliance with financial covenants. As a result of possible future economic, financial and operating declines, possible declines in our creditworthiness and potential non-compliance with financial covenants, we may have less liquidity than anticipated, fewer sources of liquidity than anticipated, less attractive financing terms and less flexibility in determining when and how to use the liquidity that is available.

We believe that our cash and cash equivalents, cash flows from operations and borrowing availability under our senior secured credit facility will be sufficient to meet our capital requirements for the next twelve months. Our primary short-term cash needs are paying operating expenses and contingent earnout payments, purchases of property and equipment, servicing outstanding indebtedness, and funding our Board of Directors approved share repurchase program and near term acquisitions. As of September 30, 2023, we had \$230.4 million in cash and cash equivalents.

Senior Secured Credit Facility

On November 13, 2019, we entered into a credit agreement (the “Credit Agreement”) as borrower, with our wholly-owned domestic subsidiaries, as guarantors, 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.

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

On August 4, 2020, in order to provide a waiver of financial covenant breach for the periods ended September 30, 2020 through March 31, 2021 of the First Lien Net Leverage Ratio and Fixed Charge Coverage Ratio (each as defined under the Credit Agreement), we and the other parties thereto entered into Amendment No. 1 to the Credit Agreement (“Amendment No. 1”). Amendment No. 1 also raised the floor for the adjusted LIBOR rate to 0.50% and the floor for the Base Rate to 1.50%. The waivers of financial covenant breach were never utilized as we remained in compliance with all debt covenants during these periods.

On October 22, 2021, in order to increase the borrowing capacity under the Credit Agreement, we and the other parties thereto entered into Amendment No. 2 to the Credit Agreement (“Amendment No. 2”). Amendment No. 2, among other things, provides for:

- an increase in the amount of the revolving credit facility from \$100.0 million to \$150.0 million,
- a \$350.0 million initial term loan facility, the proceeds of which were applied to refinancing existing indebtedness and
- a \$400.0 million delayed draw term loan facility, which was originally available for borrowing until October 22, 2023 and was extended to October 22, 2024 by Amendment No. 4 (as described below).

The maturity date of the Credit Agreement was extended to October 22, 2026. The interest rate and covenants remain unchanged.

On June 7, 2023, in order to replace the referenced LIBOR interest rate in the Credit Agreement with the Secured Overnight Financing Rate (“SOFR”), we and the other parties thereto entered into Amendment No. 3 to the Credit Agreement (“Amendment No. 3”).

On August 23, 2023, we entered into Amendment No. 4 to the Credit Agreement (“Amendment No. 4”), which extended the termination date to draw on the delayed draw term loan to October 22, 2024.

In June 2023, the Company completed a \$100 million draw on the delayed draw term loan facility and used all of the proceeds to pay down an equal portion of the revolving credit facility. As of September 30, 2023, there remained \$342 million of availability under the Credit Agreement.

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

Borrowings under the Credit Agreement bear interest, at our option, at a rate per annum equal to either (a) the adjusted Term SOFR (which cannot be less than 0.5%) 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 SOFR 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) SOFR for a 1-month Interest Period on such day plus 1.0%. As of September 30, 2023, the weighted-average interest rate was approximately 7.2%.

Interest is payable quarterly in arrears for ABR loans, at the end of the applicable interest period for SOFR loans (but not less frequently than quarterly) and upon the prepayment or maturity of the underlying loans. We are 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.

The applicable SOFR and ABR margins and the commitment fee rate are calculated based upon the first lien net leverage ratio of us and our restricted subsidiaries on a consolidated basis, as defined in the Credit Agreement. The revolving loans and

term loans bear interest at either (a) ABR (150 bps floor) plus a margin up to 1.75% or (b) SOFR (50bps floor) plus a margin up to 2.75%, at our option.

The term loans and, once drawn, the additional term loans will amortize at an annual rate equal to 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 SOFR “breakage” costs.

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

In addition, the Credit Agreement requires us 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 by us 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 owed under the Credit Agreement may result in an increase in the interest rate applicable thereto.

We were in compliance with all debt covenants in our credit facility as of September 30, 2023. We expect to meet our cash obligations as well as remain in compliance with the debt covenants for the next 12 months.

Interest rate caplets

We manage our exposure to some of our interest rate risk through the use of interest rate caplets, which are derivative financial instruments. On January 12, 2022, we hedged the variability of the cash flows attributable to the changes in the 1-month LIBOR interest rate on the first \$300 million of the term loan under the Credit Agreement by entering into a 4-year series of 48 deferred premium caplets (“caplets”). In connection with the entry into Amendment No. 3, the referenced rate in the caplets was simultaneously changed from LIBOR to SOFR.

We recognized an unrealized gain on the change in fair value of the caplets of \$0.1 million and an unrealized loss of less than \$0.1 million, net of taxes, for the three and nine months ended September 30, 2023, respectively. In comparison, we recognized an unrealized gain on the change in fair value of the caplets of \$5.9 million and \$12.7 million, net of taxes, for the three and nine months ended September 30, 2022, respectively. Further, as the 1-month LIBOR/SOFR interest rate exceeded 2% beginning in the second half of 2022, we recognized interest income on the caplets of \$2.5 million and \$6.7 million for the three and nine months ended September 30, 2023, respectively, and \$0.2 million for both the three and nine months ended September 30, 2022, which are reflected in interest expense, net in the condensed consolidated statements of operations and other comprehensive income.

Cash Flows

The following table summarizes 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)	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 92,007	\$ 78,250
Net cash used in investing activities	(35,404)	(168,871)
Net cash (used in) provided by financing activities	(50,328)	103,898

Net cash provided by operating activities

For the nine months ended September 30, 2023, net cash provided by operating activities was \$92.0 million, an increase of \$13.8 million over the comparable period due primarily to higher working capital adjustments.

Net cash used in investing activities

For the nine months ended September 30, 2023, net cash used in investing activities was \$35.4 million, a decrease of \$133.5 million over the comparable period and was primarily attributable to less cash used for business and asset acquisitions primarily due to the acquisition of Century in 2022 and the proceeds received from the settlement of the convertible notes in 2023, partially offset by more cash used for the purchases of property and equipment and advances against a portion of the purchase price on our pending business acquisition. We anticipate our capital expenditures for the purchases of property and equipment will be approximately \$70–80 million in 2023.

Net cash (used in) provided by financing activities

For the nine months ended September 30, 2023, net cash used in financing activities was \$50.3 million, compared to cash provided by financing activities of \$103.9 million in the prior-year period. The change reflects a reduction in borrowings to fund business and asset acquisitions, partially offset by lower repurchases of common stock and 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, 2022 that affect judgments and estimates of amounts recorded for certain assets, liabilities, revenues, and expenses.

Seasonality

Our 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 our locations, and higher in cold weather between February and April, when players will typically spend more time indoors at our locations. Holidays, vacation seasons, and sporting events may also cause our results to fluctuate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Market risk exposure is primarily the result of fluctuations in interest rates.

Interest rate risk

We are exposed to interest rate risk in the ordinary course of business. Borrowings under our senior secured credit facility were \$515.5 million as of September 30, 2023. If the underlying interest rates were to increase by 1.0%, or 100 basis points, the increase in interest expense on our floating rate debt would negatively impact future earnings and cash flows by approximately \$2.2 million annually, assuming the balance outstanding under the credit facility remained at \$515.5 million. In order to protect against higher interest rates in the future on our credit facility, we hedged the variability of the cash flows attributable to the changes in the 1-month LIBOR/SOFR interest rate on the first \$300 million of the term loan by entering into a 4-year series of 48 deferred premium caplets (“caplets”) on January 12, 2022. The caplets mature at the end of each month and are used to protect our exposure as the 1-month LIBOR/SOFR interest rate exceeded 2% beginning in the second half of 2022.

Cash and cash equivalents are held in cash vaults, highly liquid checking and money market accounts, gaming terminals, redemption terminals, ATMs, and amusement equipment. As a result, these amounts are not materially affected by changes in interest rates.

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 September 30, 2023, 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 the material weaknesses previously identified in Item 9A. “Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2022 were still present as of September 30, 2023 (the “Evaluation Date”). Based on the 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 September 30, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes during the quarter ended September 30, 2023 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The integration of the internal controls relating to Century, which was acquired on June 1, 2022, have been completed and Century will be included in our evaluation of the effectiveness of our internal controls over financial reporting for the fiscal year ended December 31, 2023.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is incorporated by reference to the discussion in Note 16, Commitments and Contingencies, of the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider 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, 2022 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.

Except for as set forth below, there have been no material changes in the risk factors described in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022.

Risks Related to Our Business and Industry

Unfavorable economic conditions or decreased discretionary spending due to other factors such as terrorist activity or threat thereof, epidemics, pandemics or other public health issues, civil unrest or other economic or political uncertainties, may adversely affect Accel’s business, results of operations, cash flows and financial condition.

Unfavorable economic conditions, including recession, economic slowdown, decreased liquidity in the financial markets, decreased availability of credit, rising interest rates and labor shortages, or inflation or stagflation, could have a negative effect on Accel’s business. Unfavorable economic conditions could cause location partners to shut down or ultimately declare bankruptcy, which could adversely affect Accel’s business. Unfavorable economic conditions may also result in volatility in the credit and equity markets. For example, U.S. capital and credit markets may be adversely affected by numerous factors including: instability in the U.S. and global banking systems due to financial institutions experiencing financial distress, entering into receivership or becoming insolvent, or concerns or rumors about any events of these kinds; uncertainty with respect to the U.S. federal budget, including whether a spending bill will be passed by congress by November 17, 2023 and, if not, whether there will be a closure of the federal government; the war in Israel, and the possibility of a wider Middle Eastern or global conflict; and the war between Russia and Ukraine, the possibility of a wider European or global conflict and global sanctions imposed in response thereto. The difficulty or inability of location partners to access their funds or generate or obtain adequate levels of capital to finance their ongoing operations may cause some to close or ultimately declare bankruptcy. Accel cannot fully predict the effects that unfavorable social, political and economic conditions and economic uncertainties and decreased discretionary spending could have on its business.

Accel’s revenue is largely driven by players’ disposable incomes and level of gaming activity. Unfavorable economic conditions may reduce the disposable incomes of players at location partners and may result in fewer players visiting location partners, reduced play levels, and lower amounts spent per visit, adversely affecting Accel’s results of operations and cash flows. Adverse changes in discretionary consumer spending or consumer preferences, which may result in fewer players visiting location partners and reduced frequency of visits and play levels, could also be driven by an unstable job market, outbreaks (or fear of outbreaks) of contagious diseases, inflation, stagflation, rising interest rates or other factors. Socio-political factors such as terrorist activity or threat thereof, civil unrest or other economic or political uncertainties that contribute to consumer unease may also result in decreased discretionary spending by players and have a negative effect on Accel.

Risks Related to our Financial Condition

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non-performance by financial institutions or transactional counterparties, could adversely affect Accel's financial condition and results of operations.

Actual events involving reduced or limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds, have in the past and may in the future lead to market-wide credit and liquidity problems. For example, in March 2023, Silicon Valley Bank and Signature Bank were closed and taken over by the Federal Deposit Insurance Corporation (the “FDIC”) as receiver and Credit Suisse and UBS entered into a merger agreement following the intervention of the Swiss regulators and, in May 2023, First Republic Bank was also closed and taken over by the FDIC. Although Accel did not have cash or cash equivalent balances on deposit with these institutions, and these institutions were not lenders under Accel’s indebtedness or counterparties to Accel’s interest rate hedging arrangements, instability in the U.S. or international financial systems could result in less favorable commercial financing or derivative terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources or hedging, thereby making it more difficult for Accel to obtain financing on terms favorable to it, which could have a material adverse impact on Accel’s results of operations, cash flows and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities

On November 22, 2021, the Company’s Board of Directors approved a share repurchase program of up to \$200 million of shares of Class A-1 common stock. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and alternative investment opportunities. Under the repurchase program, repurchases can be made from time to time using a variety of methods, including open market purchases or privately negotiated transactions, in compliance with the rules of the SEC and other applicable legal requirements. The repurchase program does not obligate the Company to acquire any particular amount of shares, and the repurchase program may be suspended or discontinued at any time at the Company’s discretion.

All share repurchases were made under the Company’s publicly announced program, and there are no other programs under which the Company repurchases shares. Repurchases under our program are executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The following table presents a summary of share repurchases made during the third quarter of 2023:

Period	Total number of shares purchased	Average price paid per share	Maximum approximate dollar value of shares that may yet be purchased under the program (in millions)
July 1, 2023 - July 31, 2023	—	\$—	\$99.7
August 1, 2023 - August 31, 2023	—	\$—	\$99.7
September 1, 2023 - September 30, 2023	301,199	\$11.10	\$96.4
Total	301,199	\$11.10	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarterly period covered by this report.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit
10.11(B) **	Amendment to Executive Employment Agreement, dated July 15, 2023, by and between Accel Entertainment, Inc., and Derek Harmer (Incorporated by reference to Exhibit 10.11(B) to the Company's Current Report on Form 8-K dated July 18, 2023)
10.9(D)	Amendment No. 4 to the Credit Agreement, by and among the Registrant, Capital One, National Association and the other parties thereto, dated November 13, 2019 (Incorporated by reference to Exhibit 10.9(D) to the Company's Current Report on Form 8-K dated August 25, 2023)
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)

** Indicates management contract or compensation plan or agreement.

SIGNATURES

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

ACCEL ENTERTAINMENT, INC.

Date: November 7, 2023

By: /s/ Christie Kozlik

Christie Kozlik
Chief Accounting Officer

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: November 7, 2023

/s/ Andrew Rubenstein

Andrew Rubenstein
Chief Executive Officer (Principal Executive Officer)

Certification of Principal Financial Officer

I, Mathew Ellis, 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: November 7, 2023

/s/ Mathew Ellis

Mathew Ellis

Chief Financial Officer (Principal Financial Officer)

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 September 30, 2023 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: November 7, 2023

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.

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 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mathew Ellis, 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/ Mathew Ellis

Mathew Ellis
Chief Financial Officer (Principal
Financial Officer)

Date: November 7, 2023

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.