

REFINITIV

DELTA REPORT

10-Q

MSGM - MOTORSPORT GAMES INC.

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1709

■ CHANGES	304
■ DELETIONS	526
■ ADDITIONS	879

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June** **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: **001-39868**

Motorsport Games Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	86-1791356
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
5972 NE 4th Avenue Miami, FL	33137
Address of Principal Executive Offices	Zip Code

Registrant's Telephone Number, Including Area Code: **(305) 507-8799**

Not Applicable

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$0.0001 par value per share	MSGM	The Nasdaq Stock Market LLC (The Nasdaq Capital Market)
value per share		

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 Exchange Act). Yes No

As of August 21, 2023 November 7, 2023, the registrant had 2,720,328 2,722,728 shares of Class A common stock and 700,000 shares of Class B common stock outstanding. All Class A common stock and Class B common stock share data and share-based calculations set forth in this Form 10-Q have been adjusted to reflect the registrant's 1-for-10 reverse stock split completed on November 10, 2022 on a retroactive basis for the periods presented.

Motorsport Games Inc.
Form 10-Q
For the Quarter Ended June 30, 2023 September 30, 2023

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CAUTIONARYNOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") of Motorsport Games Inc. (the "Company," "Motorsport Games," "we," "us" or "our") contains certain statements, which are not historical facts and are "forward-looking statements" within the meaning of federal securities laws. These forward-looking statements are subject to certain risks, trends and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. We use words, such as "could," "would," "may," "might," "will," "expect," "likely," "believe," "continues," "anticipate," "estimate," "intend," "plan," "project" and other similar expressions to identify some forward-looking statements, but not all forward-looking statements include these words. For example, forward-looking statements include, but are not limited to, statements we make relating to:

- our liquidity and capital requirements, including, without limitation, as to our ability to continue as a going concern; our belief that we will not have sufficient cash on hand to fund our operations **for over the remainder of 2023 next year** based on the cash and cash equivalents available as of **July 31, 2023** **October 31, 2023** and our average cash burn; our belief that additional funding will be required in order to continue operations; our expectation that we will continue to have a net cash outflow from operations for the foreseeable future as we continue to develop our product portfolio and invest in developing new video game titles; our expectation that we will continue to incur losses for the foreseeable future as we continue to incur significant expenses; our plans to address our liquidity short fall, including our exploration of several options, including, but not limited to: additional funding in the form of potential equity and/or debt financing arrangements or similar transactions, strategic alternatives for our business, including, but not limited to, the sale or licensing of our assets, and further cost reduction and restructuring initiatives; statements relating to a potential a sale of our NASCAR license, including that if such sale is consummated, we expect that we would no longer have the right to use the NASCAR brand for our products, subject to certain limited exceptions, as well as our belief that our existing business model will need to be modified, our risk profile relating to our operations will be significantly altered, that we may encounter difficulties or challenges in continuing operations, and that our cash flows and results of operations will likely be materially adversely impacted; our expectation that if any strategic alternative is executed, **including the consummation of a sale of our NASCAR license, this would help to reduce certain working capital requirements and reduce overhead expenditures, thereby reducing our expected future cash-burn, and provide some short-term liquidity relief, but that we will continue to require additional funding and/or further cost reduction measures in order to continue operations, which includes further restructuring of our business and operations; our plan to continue to seek to reduce our monthly net cash-burn by reducing our cost base through maintaining and enhancing cost control initiatives, such as those that we expect to achieve through our previously announced organizational cost reduction and restructuring program (the "2022 Restructuring Program"), initiatives, the closure of our Australian development studio, and plans to continue to evaluate the structure of our business for additional changes in order to improve both our near-term and long-term liquidity position; statements regarding potential alternatives we may be required to adopt if we are unable to satisfy our capital requirements, and our belief that if we are ultimately unable to satisfy our capital requirements, we would likely need to dissolve and liquidate our assets under the bankruptcy laws or otherwise; our belief that there is a substantial likelihood that Driven Lifestyle Group LLC ("Driven Lifestyle"), formerly known as Motorsport Network, LLC, ("Motorsport Network") will not fulfill our future borrowing requests under the \$12 million Line of Credit (as defined in this Report); and statements regarding our cash flows and anticipated uses of cash;**
- the sale of our NASCAR License (as defined in this Report), including our belief that our existing business model will need to be modified, our risk profile relating to our operations will be significantly altered, we may encounter difficulties or challenges in continuing operations due to the sale of the license, and that our cash flows and results of operations will likely be materially adversely impacted as we anticipate the amount of revenue to be generated by our existing NASCAR products to decline over time;
- our future business, results of operations, financial condition and/or liquidity, including with respect to the ongoing effects of the war between Russia and Ukraine;
- our intended corporate purpose to make the thrill of motorsports accessible to everyone by creating the highest quality, most sophisticated and most innovative experiences for racers, gamers and fans of all ages;

- new or planned products or offerings, including the anticipated timing of our new product launches under our updated product roadmap, such as our anticipated release of our Le Mans Ultimate game in December 2023 and our INDYCAR game in February 2024, as well as the possibility of further adjustments to our product roadmap due to the continuing impact of our liquidity position;
- our intentions with respect to our mobile games, including expectations that we will continue to focus on developing and further enhancing our multi-platform games for mobile phones, as well as the anticipated timing of the release of our future mobile games;
- our plans to strive to become a leader in organizing and facilitating esports tournaments, competitions, and events for our licensed racing games as well as on behalf of third-party racing game developers and publishers;
- our intention to continue exploring opportunities to expand the recurring portion of our Esports segment outside of Le Mans;
- our belief that connecting virtual racing gamers and esports fans on a digital entertainment and social platform represents the greatest opportunity to enhance the way that people learn, watch, play, and experience racing video games and racing esports;
- our future plans and expectations for Traxion.GG ("Traxion"), our online destination for the virtual racing community, including with regards to its functionality and content;
- our beliefs regarding the growing importance and business viability of esports, especially within the racing and motorsport genres;
- our intention to expand our license arrangements to other internationally recognized racing series and the platforms we operate on;
- our expectation that we will be able to extend or re-negotiate our promotion agreement with Motorsport Network Driven Lifestyle on reasonable terms;
- our intention to continue seeking to expand our audience base through traditional marketing and sales distribution channels including Facebook, Twitter, Twitch, YouTube and other online social networks;
- our belief that our esports business has the potential to generate incremental revenues through the further sale of media rights to our esports events and competitions, as well as merchandising and sports betting, if the esports audience pattern continues to grow;

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- our expectation that having a broader product portfolio will improve our operating results and provide a revenue stream that is less cyclical than releasing a single game per year;
- our plans to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through in-game purchases and extra content;
- our expectation that we will continue to derive significant revenues from sales of our products to a very limited number of distribution partners;
- our expectation that we will continue to invest in technology, hardware and software to support our games and services, including with respect to security protections;
- our belief that the global adoption of portable and mobile gaming devices leading to significant growth in portable and mobile gaming is a continuing trend;
- our intention to continue to look for opportunities to expand the recurring portion of our **business**; business, including through the planned introduction of new annualized sports franchise games, such as with Le Mans;
- our intended use of proceeds from the sales of our equity securities;

- our statements and assumptions relating to the impairment of assets;
- our plans and intentions with respect to our remediation efforts to address the material weakness in our internal control over financial reporting;

☐ our belief that the outcome of all pending legal proceedings in the aggregate is not reasonably likely to have a material adverse effect on our business, prospects, results of operations, financial condition and/or cash flows, except as otherwise disclosed in this Report, and that in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company's income for that particular period, including, without limitation, period; our beliefs regarding the merit of any plaintiff's allegations and the impact of any claims and litigation that we are subject to; and our plans and intentions with respect to defending our position in any legal proceeding;

☐ our intention to not declare dividends in the foreseeable future;

☐ our ability to utilize net operating loss carryforwards;

☐ our expectations regarding the future impact of implementing management strategies, potential acquisitions and industry trends;

☐ our belief that we may decide in the future to avail ourselves of certain corporate governance requirements of The Nasdaq Stock Market LLC ("NASDAQ") as a result of being a "controlled company" within the meaning of the NASDAQ rules;

☐ our expectations relating to the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, including expected savings; and any restructuring charges to be incurred; and

☐ our expectation that our current development operations will not have significant exposure to changes in circumstances arising from the Ukraine-Russia conflict.

The forward-looking statements contained in this Report are based on assumptions that we have made in light of our industry experience and our perceptions of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. As you read and consider this Report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (many of which are beyond our control) and assumptions that are difficult to predict. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual operating and financial performance and cause our performance to differ materially from the performance anticipated in the forward-looking statements. Important factors that could cause our actual results to differ materially from those projected in any forward-looking statements are discussed in "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K") and in "Risk Factors" in Part II, Item 1A of this Report, as updated in our subsequent filings with the Securities and Exchange Commission (the "SEC"). In addition to factors that may be described in our filings with the SEC, including this Report, the following factors, among others, could cause our actual results to differ materially from those expressed in any forward-looking statements made by us:

- (i) difficulties and/or delays in accessing available liquidity, and other unanticipated difficulties in resolving our continuing financial condition and ability to obtain additional capital to meet our financial obligations, including, without limitation, difficulties in securing funding that is on commercially acceptable terms to us or at all, such as our inability to complete in whole or in part any potential debt and/or equity financing transactions or similar transactions, any inability to achieve cost reductions, including, without limitation, those which we expect to achieve through the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, as well as any inability to consummate one or more additional strategic alternatives for our business, including, but not limited to, the sale or licensing of our assets, and/or less than expected benefits resulting from any such strategic alternative; difficulties, delays or our inability to efficiently manage our cash and working capital; higher than expected operating expenses; adverse impacts to our liquidity position resulting from the higher interest rate and higher inflationary environment; the unavailability of funds from anticipated borrowing sources; the unavailability of funds from our inability to reduce or control costs, including, without limitation, those which we expect to achieve through the 2022 Restructuring Program and any further cost reduction and restructuring initiatives; lower than expected operating revenues, cash on hand and/or funds available from anticipated borrowings or funds expected to be generated from cost reductions resulting from the implementation of cost control initiatives, such as through the 2022 Restructuring Program and any further cost reduction and restructuring initiatives; and/or less than anticipated cash generated by our operations; and/or adverse effects on our liquidity resulting from changes in economic conditions (such as continued volatility in the financial markets, whether attributable to COVID-19, the ongoing war between Russia and Ukraine or otherwise; significantly higher rates of inflation, significantly higher interest rates and higher labor costs; the impact of higher energy prices on consumer purchasing behavior, monetary conditions and foreign currency fluctuations, tariffs, foreign currency controls and/or government-mandated pricing controls, as well as in trade, monetary, fiscal and tax policies), political conditions (such as military actions and terrorist activities) and pandemics and natural disasters; and/or the unavailability of funds from (A) delaying the implementation of or revising certain aspects of our business strategy; (B) reducing or delaying the development and launch of new products and events; (C) reducing or delaying capital spending, product development spending and marketing and promotional spending; (D) selling assets or operations; (E) seeking additional capital contributions and/or loans from Motorsport Network, Driven Lifestyle, the Company's other affiliates and/or third parties; and/or (F) reducing other discretionary spending;

- (ii) difficulties, delays or less than expected results in achieving our growth plans, objectives and expectations, such as due to a slower than anticipated economic recovery and/or our inability, in whole or in part, to continue to execute our business strategies and plans, such as due to less than anticipated customer acceptance of our new game titles, our experiencing difficulties or the inability to launch our games as planned, less than anticipated performance of the games impacting customer acceptance and sales and/or greater than anticipated costs and expenses to develop and launch our games, including, without limitation, higher than expected labor costs;
- (iii) difficulties, delays in or unanticipated events that may impact the timing and scope of new product launches, such as due to difficulties or delays related to our transition from using development staff in Russia to using development staff in other countries and/or difficulties and/or delays arising out of any resurgence of the ongoing and prolonged COVID-19 pandemic;
- (iv) less than expected benefits from implementing our management strategies and/or adverse economic, market and geopolitical conditions that negatively impact industry trends, such as significant changes in the labor markets, an extended or higher than expected inflationary environment (such as the impact on consumer discretionary spending as a result of significant increases in energy and gas prices which have been increasing since early in 2020), a higher interest rate environment, tax increases impacting consumer discretionary spending and or quantitative easing that results in higher interest rates that negatively impact consumers' discretionary spending, or adverse developments relating to the ongoing war between Russia and Ukraine;
- (v) delays and higher than anticipated expenses related to the ongoing and prolonged COVID-19 pandemic;
- (vi) difficulties and/or delays adversely impacting our ability (or inability) to maintain existing, and to secure additional, licenses and other agreements with various racing series;

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- (vii) difficulties and/or delays adversely impacting our ability to successfully manage and integrate any joint ventures, acquisitions of businesses, solutions or technologies;
- (viii) unanticipated operating costs, transaction costs and actual or contingent liabilities;
- (ix) difficulties and/or delays adversely impacting our ability to attract and retain qualified employees and key personnel;
- (x) adverse effects of increased competition;
- (xi) changes in consumer behavior, including as a result of general economic factors, such as increased inflation, recessionary factors, higher energy prices and higher interest rates;
- (xii) difficulties and/or delays adversely impacting our ability to protect our intellectual property;
- (xiii) local, industry and general business and economic conditions;
- (xiv) unanticipated adverse effects on our business, prospects, results of operations, financial condition, cash flows and/or liquidity as a result of unexpected developments with respect to our legal proceedings;
- (xv) difficulties, delays or our inability to successfully complete the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, which could reduce the benefits realized from such activities;
- (xvi) higher than anticipated restructuring charges and/or payments and/or changes in the expected timing of such charges and/or payments; payments as a result of, among other things, legal requirements in applicable foreign jurisdictions; and/or less than anticipated annualized cost reductions from our plans and/or changes in the timing of realizing such cost reductions, such as due to less than anticipated liquidity to fund such activities and/or more than expected costs to achieve the expected cost reductions; and
- (xvii) difficulties, delays, less than expected results or our inability to successfully implement any strategic alternative or potential option for our business, including, but not limited to, the sale or licensing of certain of our assets, which could result in, among other things, less than expected financial benefits from such actions.

Additionally, there are other risks and uncertainties described from time to time in the reports that we file with the SEC. Should one or more of these risks or uncertainties materialize or should any of these assumptions prove to be incorrect, our actual operating and financial performance may vary in material respects from the performance projected in these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to update any forward-looking statement contained in this Report to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances, except as otherwise required by law. New factors that could cause our business not to develop as we expect emerge from time to time, and it is not possible for us to predict all of them. Further, we cannot assess the impact of each currently known or new factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

MOTORSPORT GAMES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,966,553	\$ 979,306	\$ 1,182,342	\$ 979,306
Accounts receivable, net of allowances of \$2,532,383 and \$2,252,383 as of June 30, 2023 and December 31, 2022, respectively	1,018,784	1,809,110		
Accounts receivable, net of allowances of \$1,229,258 and \$2,252,383 as of September 30, 2023 and December 31, 2022, respectively			704,549	1,809,110
Due from related parties	68,421	206,532	-	206,532
Prepaid expenses and other current assets	1,043,214	1,048,392	963,051	1,048,392
Total Current Assets	4,096,972	4,043,340	2,849,942	4,043,340
Property and equipment, net	394,608	522,433	312,210	522,433
Operating lease right of use assets	300,265	971,789	247,804	971,789
Intangible assets, net	8,544,394	13,360,230	8,003,656	13,360,230
Total Assets	<u>\$ 13,336,239</u>	<u>\$ 18,897,792</u>	<u>\$ 11,413,612</u>	<u>\$ 18,897,792</u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	\$ 876,198	\$ 2,372,219	\$ 1,320,860	\$ 2,372,219
Accrued expenses and other current liabilities	3,359,598	3,416,424	3,691,941	3,416,424
Due to related parties	32,129	4,589,211	246,435	4,589,211
Purchase commitments	2,239,821	2,563,216	2,507,296	2,563,216
Operating lease liabilities (current)	190,604	380,538	197,201	380,538
Total Current Liabilities	<u>6,698,350</u>	<u>13,321,608</u>	<u>7,963,733</u>	<u>13,321,608</u>
Operating lease liabilities (non-current)	112,900	617,288	52,932	617,288
Other non-current liabilities	3,105,037	3,055,498	2,898,050	3,055,498
Total Liabilities	<u>9,916,287</u>	<u>16,994,394</u>	<u>10,914,715</u>	<u>16,994,394</u>
Commitments and contingencies (Note 9)				
Stockholders' Equity:				
Preferred stock, \$0.0001 par value per share; authorized 1,000,000 and 1,000,000 shares; and none issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	-	-	-	-
Class A common stock - \$0.0001 par value per share; authorized 100,000,000 and 100,000,000 shares; 2,720,328 and 1,183,808 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	269		117	
Class B common stock - \$0.0001 par value per share; authorized 7,000,000 and 7,000,000 shares; 700,000 and 700,000 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	70		70	

Preferred stock, \$0.0001 par value per share; authorized 1,000,000 and 1,000,000 shares; and none issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	-	-	-
Class A common stock - \$0.0001 par value per share; authorized 100,000,000 and 100,000,000 shares; 2,720,328 and 1,183,808 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	269	117	
Class B common stock - \$0.0001 par value per share; authorized 7,000,000 and 7,000,000 shares; 700,000 and 700,000 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	70	70	
Common stock, value	70	70	70
Additional paid-in capital	91,736,545	76,446,061	91,842,069 76,446,061
Accumulated deficit	(87,251,102)	(73,979,131)	(90,741,141) (73,979,131)
Accumulated other comprehensive loss	(1,208,945)	(933,406)	(688,706) (933,406)
Total Stockholders' Equity Attributable to Motorsport Games Inc.	3,276,837	1,533,711	412,561 1,533,711
Non-controlling interest	143,115	369,687	86,336 369,687
Total Stockholders' Equity	3,419,952	1,903,398	498,897 1,903,398
Total Liabilities and Stockholders' Equity	\$ 13,336,239	\$ 18,897,792	\$ 11,413,612 \$ 18,897,792

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

MOTORSPORT GAMES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

					2023	2022	2023	2022
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$ 1,739,130	\$ 2,008,987	\$ 3,468,485	\$ 5,330,776	\$ 1,693,871	\$ 1,223,142	\$ 5,162,356	\$ 6,553,918
Revenues								
Cost of revenues [1]	866,167	856,157	2,114,903	2,869,963	831,479	602,856	2,946,382	3,472,819
Gross profit	872,963	1,152,830	1,353,582	2,460,813	862,392	620,286	2,215,974	3,081,099
Operating expenses:								
Sales and marketing [2]	434,788	1,540,220	1,053,198	3,228,669	358,120	1,440,659	1,411,318	4,669,328
Development [3]	1,787,768	2,681,643	4,184,902	5,085,980	1,566,839	2,631,066	5,751,741	7,717,046
General and administrative [4]	3,154,233	3,349,609	5,933,343	6,772,763	1,526,614	4,008,335	7,459,957	10,781,098
Impairment of goodwill	-	-	-	4,788,268	-	-	-	4,788,268
Impairment of intangible assets	4,004,627	149,048	4,004,627	4,640,102	-	-	4,004,627	4,640,102
Depreciation and amortization	104,854	117,725	202,208	233,796	75,614	92,703	277,822	326,499
Total operating expenses	9,486,270	7,838,245	15,378,278	24,749,578	3,527,187	8,172,763	18,905,465	32,922,341
Loss from operations	(8,613,307)	(6,685,415)	(14,024,696)	(22,288,765)	(2,664,795)	(7,552,477)	(16,689,491)	(29,841,242)
Interest expense	(244,750)	(191,662)	(443,870)	(393,258)	(230,190)	(244,953)	(674,060)	(638,211)
Other income (expense), net	657,175	(610,594)	1,008,492	(772,693)	(639,147)	(739,285)	369,345	(1,511,978)
Net loss	(8,200,882)	(7,487,671)	(13,460,074)	(23,454,716)	(3,534,132)	(8,536,715)	(16,994,206)	(31,991,431)
Less: Net loss attributable to non-controlling interest	(29,858)	(82,375)	(188,103)	(911,803)	(44,093)	(21,431)	(232,196)	(933,234)
Net loss attributable to Motorsport Games Inc.	\$ (8,171,024)	\$ (7,405,296)	\$ (13,271,971)	\$ (22,542,913)	\$ (3,490,039)	\$ (8,515,284)	\$ (16,762,010)	\$ (31,058,197)
Net loss attributable to Class A common stock per share:								
Basic and diluted	\$ (3.02)	\$ (6.34)	\$ (5.42)	\$ (19.32)	\$ (1.28)	\$ (7.29)	\$ (6.60)	\$ (26.61)
Weighted-average shares of Class A common stock outstanding:								
Basic and diluted	2,704,106	1,167,359	2,448,131	1,167,087	2,720,328	1,167,359	2,538,863	1,167,178

[1] Includes related party costs of \$0 and \$0 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$0 and \$6,228 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

[2] Includes related party expenses of \$0 and \$0 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$17,076 and \$0 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

[3] Includes related party expenses of \$15,435 15,439 and \$824 21,512 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$30,923 46,361 and \$23,430 44,942 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

[4] Includes related party expenses of \$89,831 116,530 and \$75,541 122,714 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively, and \$181,876 298,190 and \$98,337 221,051 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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

MOTORSPORT GAMES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

					2023	2022	2023	2022
	Three Months Ended June 30,		For the Six Months Ended June 30,		Three Months Ended	September 30,	September 30,	Nine Months Ended
	2023	2022	2023	2022	2023	2022	2023	2022
Net loss	\$ (8,200,882)	\$ (7,487,671)	\$ (13,460,074)	\$ (23,454,716)	\$ (3,534,132)	\$ (8,536,715)	\$ (16,994,206)	\$ (31,991,431)
Other comprehensive (loss) income:								
Other comprehensive income:								
Foreign currency translation adjustments	(196,951)	136,976	(275,539)	11,731	520,239	224,230	244,700	235,961
Comprehensive loss	(8,397,833)	(7,350,695)	(13,735,613)	(23,442,985)	(3,013,893)	(8,312,485)	(16,749,506)	(31,755,470)
Comprehensive loss attributable to non-controlling interests	(32,009)	(140,224)	(226,572)	(1,028,945)	(56,779)	(2,280)	(283,351)	(1,031,225)
Comprehensive loss attributable to Motorsport Games Inc.	\$ (8,365,824)	\$ (7,210,471)	\$ (13,509,041)	\$ (22,414,040)	\$ (2,957,114)	\$ (8,310,205)	\$ (16,466,155)	\$ (30,724,245)

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

MOTORSPORT GAMES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

For the Three and Six Months Ended June 30, 2023													
	Total Stockholders' Equity / Member's Equity												
	Class A		Class B		Additional		Accumulated Other		Comprehensive Loss		Attributable to Motorsport Games Inc.	Non-controlling Interest	Stock Eq
	Common Stock	Common Stock	Common Stock	Common Stock	Paid-In Capital	Accumulated Deficit	Other	Comprehensive Loss	Attributable to Motorsport Games Inc.	Non-controlling Interest	Stock Eq	Mem Eq	
Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	
Balance - January 1, 2023	1,183,808	\$ 117	700,000	\$ 70	\$ 76,446,061	\$ (73,979,131)	\$ (933,406)	\$ 1,533,711	\$ 369,687	\$ 1,533,711	\$ 369,687	\$ 1,533,711	
Issuance of common stock	734,741	74	-	-	10,571,460	-	-	10,571,534	-	10,571,534	-	10,571,534	
Issuance of common stock for extinguishment of related party debt	780,385	78	-	-	3,948,488	-	-	3,948,566	-	3,948,566	-	3,948,566	
Stock-based compensation	-	-	-	-	249,233	-	-	249,233	-	249,233	-	249,233	
Other comprehensive loss	-	-	-	-	-	-	-	(78,588)	(78,588)	(78,588)	(36,318)	(36,318)	
Net loss	-	-	-	-	-	(5,100,947)	-	(5,100,947)	-	(5,100,947)	(158,245)	(5,100,947)	
Balance - March 31, 2023	2,698,934	\$ 269	700,000	\$ 70	\$ 91,215,242	\$ (79,080,078)	\$ (1,011,994)	\$ 11,123,509	\$ 175,124	\$ 11,123,509	\$ 175,124	\$ 11,123,509	
Stock-based compensation	21,394	-	-	-	521,303	-	-	521,303	-	521,303	-	521,303	
Other comprehensive loss	-	-	-	-	-	-	-	(196,951)	(196,951)	(196,951)	(2,151)	(2,151)	
Net loss	-	-	-	-	-	(8,171,024)	-	(8,171,024)	-	(8,171,024)	\$ (29,858)	(8,171,024)	
Balance - June 30, 2023	2,720,328	\$ 269	700,000	\$ 70	\$ 91,736,545	\$ (87,251,102)	\$ (1,208,945)	\$ 3,276,837	\$ 143,115	\$ 3,276,837	\$ 143,115	\$ 3,276,837	
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	
Balance - September 30, 2023	For the Three and Six Months Ended June 30, 2022												
Class A	Class B	Additional											
Common Stock	Common Stock	For the Three and Nine Months Ended September 30, 2022											
Common Stock	Common Stock	Total Stockholders' Equity /											

	Member's Equity Attributable to Motorsport										S
	Class A Common Stock				Class B Common Stock		Additional Paid-In Capital		Accumulated Deficit	Other Comprehensive Loss	
	Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Games Inc.	Interest		
Balance - January 1, 2022	1,163,590	\$ 116	700,000	\$ 70	\$ 75,652,853	\$ (37,988,326)	\$ (945,375)	\$ 36,719,338	\$ 1,262,665	\$	
Stock-based compensation	3,769	-	-	-	353,030	-	-	353,030	-		
Other comprehensive loss	-	-	-	-	-	-	(125,245)	(125,245)	(59,293)		
Net loss	-	-	-	-	-	(15,137,617)	-	(15,137,617)	(829,428)		
Balance - March 31, 2022	1,167,359	\$ 116	700,000	\$ 70	\$ 76,005,883	\$ (53,125,943)	\$ (1,070,620)	\$ 21,809,506	\$ 373,944	\$	
Stock-based compensation	-	-	-	-	238,573	-	-	238,573	-		
Other comprehensive income (loss)	-	-	-	-	-	-	136,976	136,976	(57,849)		
Net loss	-	-	-	-	-	(7,405,296)	-	(7,405,296)	(82,375)		
Balance - June 30, 2022	1,167,359	\$ 116	700,000	\$ 70	\$ 76,244,456	\$ (60,531,239)	\$ (933,644)	\$ 14,779,759	\$ 233,720	\$	
Stock-based compensation	-	-	-	-	228,712	-	-	228,712	-		
Other comprehensive income	-	-	-	-	-	-	224,230	224,230	19,151		
Net loss	-	-	-	-	-	(8,515,284)	-	(8,515,284)	(21,431)		
Balance - September 30, 2022	1,167,359	\$ 116	700,000	\$ 70	\$ 76,473,168	\$ (69,046,523)	\$ (709,414)	\$ 6,717,417	\$ 231,440	\$	

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

MOTORSPORT GAMES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30,		For the Ni En Septem
	2023	2022	2023
Cash flows from operating activities:			
Net loss	\$ (13,460,074)	\$ (23,454,716)	\$ (16,994,206)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on impairment of intangible assets	4,004,627	4,640,102	4,004,627
Loss on impairment of goodwill	-	4,788,268	-
Loss on impairment of property, plant and equipment	7,661	-	7,661
Depreciation and amortization	1,011,231	1,071,172	1,512,630
Non-cash lease expense	-	196,938	-
Purchase commitment and license liability interest accretion	396,547	-	621,780
Stock-based compensation	770,536	591,603	876,060
Changes in the fair value of stock warrants	(423,403)	-	(438,148)
Sales return and price protection reserves	280,000	1,098,397	280,000
Changes in assets and liabilities:			
Accounts receivable	512,452	2,877,935	822,477
Due from related parties	(473,136)	-	(190,652)
Operating lease liabilities	(22,723)	(194,117)	(23,694)
Prepaid expenses and other assets	13,772	(572,926)	83,338
Accounts payable	(1,498,530)	(1,455,211)	(1,046,204)
Due to related parties	2,282	-	2,884
Other non-current liabilities	-	(475,927)	-
Accrued expenses and other liabilities	28,596	(1,160,816)	375,436
Net cash used in operating activities	\$ (8,850,162)	\$ (12,049,298)	\$ (10,106,011)
Cash flows from investing activities:			
Purchase of property and equipment	(24,437)	(196,346)	(26,798)
Net cash used in investing activities	\$ (24,437)	\$ (196,346)	\$ (26,798)
Cash flows from financing activities:			
Advances from related parties	-	143,517	-
Repayments on advances from related parties	-	(24,913)	-
Repayments of purchase commitment liabilities	(550,000)	(1,000,000)	(700,000)
Payment of license liabilities	(262,500)	(100,000)	(262,500)
Issuance of common stock from stock purchase commitment agreement	644,750	-	644,750
Issuance of common stock from registered direct offerings	10,404,784	-	10,404,784
Net cash provided by (used in) financing activities	\$ 10,237,034	\$ (981,396)	\$ 10,087,034
Net cash provided by financing activities			\$ 10,087,034
Effect of exchange rate changes on cash and cash equivalents	(375,188)	630,451	248,811
Net increase (decrease) in cash and cash equivalents	987,247	(12,596,589)	203,036
Total cash and cash equivalents at beginning of the period	\$ 979,306	\$ 17,819,640	\$ 979,306
Total cash and cash equivalents at the end of the period	\$ 1,966,553	\$ 5,223,051	\$ 1,182,342
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 399,231	\$ -	\$ 405,690
Non-cash investing and financing activities:			
Shares issued to Motorsport Network LLC for extinguishment of related party loan	\$ 3,948,566	\$ -	\$ -

Extinguishment of Motorsport Network LLC related party loan for Class A shares	\$	(3,948,566)	\$	-
Shares issued to Driven Lifestyle Group LLC for extinguishment of related party loan				\$ 3,948,566
Extinguishment of Driven Lifestyle Group LLC related party loan for Class A shares				\$ (3,948,566)
Issuance of warrants in connection with registered direct offerings	\$	54,597	\$	- \$ 39,852
Purchase commitment liability	\$	-	\$	29,681

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

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 - BUSINESS ORGANIZATION, NATURE OF OPERATIONS, AND RISKS AND UNCERTAINTIES

Organization and Operations

Motorsport Gaming US LLC ("Motorsport Gaming") was established as a limited liability company on August 2, 2018 under the laws of the State of Florida. On January 8, 2021, Motorsport Gaming converted into a Delaware corporation pursuant to a statutory conversion and changed its name to Motorsport Games Inc. ("Motorsport Games" or the "Company"). Upon effecting the corporate conversion on January 8, 2021, Motorsport Games now holds all the assets of Motorsport Gaming, and all of the debts and obligations of Motorsport Gaming were assumed by Motorsport Games by operation of law in the corporate conversion.

Risks and Uncertainties

Liquidity and Going Concern

The Company had a net loss of approximately \$13.5 million and negative cash flows from operations of approximately \$8.9 million and \$10.1 million for the three months ended September 30, 2023. As of September 30, 2023, the Company had an accumulated deficit of \$87.3 million for the six months ended September 30, 2023. As of June 30, 2023, the Company had cash and cash equivalents of \$2.0 million, which was reduced to \$1.2 million as of September 30, 2023. The increase in cash and cash equivalents was driven by the sale of the Company's NASCAR License (as defined in Note 12) to iRacing.com Motorsport Simulations, LLC ("iRacing") on October 3, 2023. See Note 12 - *Subsequent Events* for additional details. For the three months ended June 30, 2023, September 30, 2023, the Company experienced an average net cash burn from operations of approximately \$1.1 million a month, and while it has taken measures to reduce its costs, the Company expects to continue to have a net cash outflow from operations for the foreseeable future as it continues to develop its product portfolio and invest in developing new video game titles.

The Company's future liquidity and capital requirements include funds to support the planned costs to operate its business, including amounts required to fund working capital, support the development and introduction of new products, maintain existing titles, and certain capital expenditures.

In order to address its liquidity shortfall, the Company is actively exploring several options, including, but not limited to: i) seeking funding in the form of potential equity and/or debt financing arrangements or similar transactions (collectively, "Capital Financing"); ii) exploring alternatives for its business, including, but not limited to, the sale or licensing of the Company's assets; assets in addition to its recent sale of the NASCAR License; and iii) cost reduction and restructuring initiatives, including re-evaluating its product roadmap, each of which is described more fully below.

The Company continues to explore additional funding in the form of potential Capital Financing and has entered into an Equity Distribution Agreement ("ED Agreement") with Canaccord Genuity LLC, as sales agent (the "Sales Agent"), pursuant to which the Company may issue and sell shares of its common stock having an aggregate offering price of up to \$10 million (subject to compliance with the limitations set forth in the SEC's "base shelf" registration statement on Form S-3). Subject to the terms and conditions of the ED Agreement, the Sales Agent may sell shares by any method deemed to be an "at-the-market" ("ATM") offering, as defined in Rule 415 under the Securities Act of 1933, as amended. As of June 30, 2023, September 30, 2023, the Company had an aggregate of \$10 million of shares available for future sales under its ATM program. However, due to the Company's present liquidity position and required future funding requirements, the funds raised via the ATM program would not be sufficient to satisfy its ongoing liquidity requirements and further potential Capital Financing may be required, in conjunction to the other options being explored by the Company. Further, there can be no assurance the Company will be able to raise additional funding via the ATM program, should it choose to sell shares under the ED Agreement, nor can there be any other assurance that the Company will be able to raise additional funding in the form of equity and/or debt financing on commercially acceptable terms, if at all, to satisfy its future needed liquidity requirements.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Due to the continuing uncertainty surrounding the Company's ability to raise funding in the form of potential Capital Financing, and in light of its current position and anticipated future funding requirements, the Company has decided to explore other strategic alternatives and potentially sell certain assets of its business, including, but not limited to, the sale or licensing of certain of the Company's assets. For example, the Company is currently in discussions with a third-party for the potential addition to its recent sale of the Company's NASCAR license. If any such additional alternative is executed, including the consummation of a sale of the Company's NASCAR license, it is expected it would help to reduce certain of the Company's working capital requirements position and reduce overhead expenditures, thereby reducing the Company's expected cash burn, and provide some short-term liquidity relief. Nonetheless, even if the Company is successful in implementing one or more additional alternatives, including the consummation of a sale of the Company's NASCAR license, the Company will continue to require additional further cost reduction measures in order to continue operations, which includes further restructuring of its business and operations. The Company also assures that the Company will even be successful in implementing any additional strategic plan for the sale or licensing of its assets beyond the consummation of a sale of the Company's NASCAR license, or any other strategic alternative, which may be subject to the satisfaction of the Company's control, such as, among other things, control.

As part of its ongoing liquidity management efforts, the Company has evaluated its product roadmap and determined that the expected timing and scope of certain new product releases is required. Specifically, the Company has determined that its upcoming Le Mans game release date will be moved from NASCAR with respect December 2023 to any sale of an anticipated February 2024 release date. In addition, the Company's decision on October 29, 2023 to complete a restructuring of its operations that primarily resulted in the closure of its Australian development studio, as well as the reduction of headcount in the United Kingdom, the Company determined it was necessary to delay the development of its previously planned INDYCAR title until such time it is able to secure additional funding and capable resources to be able to develop a high-quality INDYCAR video game title. Refer to Note 12 - *Subsequent Events* for further details regarding the restructuring.

As the Company continues to address its liquidity constraints, it has re-evaluated the Company may need to make further adjustments to its product roadmap in the second quarter of 2023 and modified the expected timing and scope of certain new product releases, including the release of its NASCAR games, which have been put on hold indefinitely. Further, the Company is evaluating its ability to deliver new titles under its current product roadmap, such as with INDYCAR and reduce operating cash burn. Additionally, the British Touring Car Championship (the "BTCC"), which may result in further adjustments to the Company's product roadmap. The Company continues to seek to reduce and improve its monthly net cash-burn by reducing its base liquidity through maintaining and enhancing cost control initiatives, such as those that it expects to achieve through its previous organizational restructuring program (the "2022 Restructuring Program"), and is as well as the closure of its Australian development studio. The Company also plans to continue evaluating the structure of its business for additional changes in order to improve both its near-term and long-term liquidity, as well as create a healthy and sustainable Company from which to operate.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

If the Company is unable to satisfy its capital requirements, it could be required to adopt one or more of the following alternatives:

- delaying the implementation of or revising certain aspects of the Company's business strategy;
- further reducing or delaying the development and launch of new products and events;
- further reducing or delaying capital spending, product development spending and marketing and promotional spending;
- selling additional assets or operations;
- seeking additional capital contributions and/or loans from Motorsport Network, Driven Lifestyle Group LLC ("Driven Lifestyle"), the Company's and/or third parties;
- further reducing other discretionary spending;
- entering into financing agreements on unattractive terms; and/or
- significantly curtailing or discontinuing operations.

There can be no assurance that the Company would be able to take any of the actions referred to above because of a variety of commercial factors, including, without limitation, market conditions being unfavorable for an equity or debt issuance or similar transactions, additional capital contributions and/or loans not being available from Motorsport Network Driven Lifestyle or affiliates and/or third parties, or that the transactions can be permitted under the terms of the Company's various debt instruments then in effect, such as due to restrictions on the incurrence of debt, the payment of dividends, the payment of certain expenses, the creation of liens, asset dispositions and related party transactions. In addition, such actions, if taken, may not enable the Company to satisfy its capital requirements if the actions that the Company is able to consummate do not generate a sufficient amount of additional capital.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Even if the Company does secure additional Capital Financing, if the anticipated level of revenues are not achieved because of, for example, sales of the Company's products due to the disposition of key assets, such as the potential sale of its NASCAR license, License, further changes in the Company's product roadmap and/or the Company's inability to deliver new products for its various other licenses; less than anticipated acceptance of the Company's offering of products and events; less than effective marketing and promotion campaigns, decreased consumer response to weak economic conditions or weakness in the overall electronic games category; adverse changes in foreign currency exchange rates; decreased sales of the Company's products and events as a result of increased competitive activities by the Company's competitors; change in consumer purchasing habits, such as the impact of higher energy prices on consumer purchasing behavior; retailer inventory management or reduction in display space; less than anticipated results from the Company's existing or new products or from its advertising and/or marketing plans; Company's expenses, including, without limitation, for marketing, advertising and promotions, product returns or price protection expenditures; the anticipated level of expenses, the Company's liquidity position may continue to be insufficient to satisfy its future capital requirements. If the Company is ultimately unable to satisfy its capital requirements, it would likely need to dissolve and liquidate its assets under the bankruptcy laws otherwise.

In accordance with Accounting Standards Codification ("ASC") 205-40, *Going Concern*, the Company has evaluated whether there are conditions considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the condensed consolidated financial statements are issued. The factors described above, in particular the available cash on hand to fund operations for the next year, have raised substantial doubt about the Company's ability to continue as a going concern.

The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Accordingly, the condensed consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In management's opinion, such statements include all adjustments (consisting of normal recurring items) which are considered necessary for a fair statement of the Company's unaudited condensed consolidated financial results for the three and six months ended June 30, 2023 September 30, 2023 and for the three and six months ended June 30, 2023 September 30, 2023. The Company's results of the three and six months ended June 30, 2023 September 30, 2023 are not necessarily indicative of the operating results for the full year December 31, 2023 or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures as of December 31, 2022 and 2021 and for the years then ended which are included in the 2022 Form 10-K.

Effective on November 10, 2022, the Company amended its certificate of incorporation to effectuate a reverse split of the issued and outstanding Class A common stock and Class B common stock at a ratio of 1-for-10. Fractional shares of common stock resulting from the reverse stock split will be paid in cash. Shares underlying outstanding equity-based awards were proportionately decreased and the respective per share exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. All shares of common stock, options, awards, and per share information presented in the unaudited condensed consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis for all periods presented.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

The Company's significant estimates used in these consolidated financial statements include, but are not limited to, revenue recognition including allowances for returns and price protection, as well as current expected credit losses, valuation allowance of deferred income tax assets, acquired companies and equity method investments, the recognition and disclosure of contingent liabilities, goodwill and intangible asset testing, and stock-based compensation valuation. Certain of the Company's estimates could be affected by external conditions, including those of the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company's estimates and may cause actual results to differ from those estimates.

Recently Issued Accounting Standards

As an emerging growth company ("EGC"), the Jumpstart Our Business Startups Act ("JOBS Act") allows the Company to delay adoption of new accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act until such time as the Company is no longer considered to be an EGC. The adoption dates listed below reflect this election.

Adoption of Accounting Pronouncements

On January 1, 2023, the Company adopted Accounting Standard Update ("ASU") 2019-11, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses"* ("ASU 2019-11"), issued by the Financial Accounting Standards Board (the "FASB") in November 2019. ASU 2019-11 is an accounting pronouncement that amends ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*, issued by the FASB in December 2016. ASU 2016-13, as amended by ASU 2019-11, requires an impairment model (known as the current expected credit loss ("CECL") model) that estimates expected losses rather than incurred losses. Under the new guidance, each reporting entity should estimate an allowance for expected losses, which is intended to result in more timely recognition of losses. This model replaces multiple existing impairment models in current U.S. generally accepted accounting principles that require a loss to be incurred before it is recognized. The new standard applies to trade receivables arising from revenue transactions, contract assets and accounts receivable. Under ASC 606, *"Revenue from Contracts with Customers"* ("ASC 606") revenue is recognized when, based on specific criteria, it is probable that an entity will collect the consideration it is entitled to when goods or services are transferred to a customer. When trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses on trade receivables over their contractual lives will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. ASU 2019-11 is effective for smaller reporting companies with annual periods beginning after December 15, 2022, including the interim periods in the year of adoption. All entities may adopt the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). Upon adoption, this guidance did not have a material impact on the Company's unaudited condensed consolidated financial statements.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

On January 1, 2023, the Company adopted ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging in Entity's Own Equity (Subtopic 815-40) – Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"), issued in August 2020. The amendments affect entities that issue convertible instruments, as well as contracts in an entity's own equity. For instruments, the instruments primarily affected are those issued with beneficial conversion features or cash conversion features because the models for those specific features are removed. However, all entities that issue convertible instruments are affected by the amendments to requirements in ASU 2020-06. These amendments improve U.S. GAAP by eliminating certain accounting models, therefore, simplifying the accounting for convertible instruments, and reducing complexity for preparers and practitioners, as well as improving the decision usefulness and relevance of the information provided to financial statement users. In addition to eliminating certain accounting models, these amendments enhance transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share guidance. For contracts in an entity's own equity, the contracts primarily affected are freestanding instruments and embedded features that are accounted for as derivatives under current guidance because of failure to meet the settlement conditions of the derivatives scope exception related to certain requirements of the scope exception. ASU 2020-06 simplifies the settlement assessment by removing the requirements (1) to consider whether the contracts are settled in registered shares, (2) to consider whether collateral is required to be posted, and (3) to assess shareholder rights. These amendments also change the assessment of whether an embedded conversion feature in a convertible instrument qualifies for the derivatives scope exception. These amendments improve U.S. GAAP by simplifying the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over substance-based accounting conclusions and improving inconsistency in the accounting for some contracts as derivatives while accounting for economic contracts as equity. Additionally, the amendments in ASU 2020-06 affect the diluted earnings per share calculation for instruments that may be converted into cash or shares and for convertible instruments. This guidance is effective for smaller reporting companies with annual periods beginning after December 15, 2023, including the interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years after December 15, 2023, including interim periods within those fiscal years. All entities may adopt the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). Entities may also adopt the amendments using the fully retrospective method of transition, with the cumulative effect of the change recognized as an adjustment to the opening balance of retained earnings in the first comparative period presented. Upon adoption, this guidance did not have a material impact on the Company's financial position, results of operations, or cash flows. The Company has not yet adopted ASU 2020-06 in its unaudited condensed financial statements.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Significant Accounting Policies

There have been no material changes to the significant accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2022, as included in the 2022 Form 10-K, except as disclosed in this note.

Fair Value Measurements

The Company accounts for its assets and liabilities using a hierarchy of valuation techniques based on whether the inputs to those valuations are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the fair-value hierarchy below. This hierarchy requires the Company to use observable market data, if available, when determining fair value.

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or valuation techniques in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's liability-classified warrants are measured at fair value on a recurring basis, with subsequent changes in fair value recognized in the statement of operations. Certain assets, including long-lived assets, right of use assets, goodwill, indefinite-lived intangible assets, and purchase commitments are measured at fair value on a nonrecurring basis; that is, the assets are not measured at fair value on an ongoing basis, but are subject to fair value adjustments. Fair value measurements with unobservable inputs are classified as Level 3. Other financial instruments, including cash and cash equivalents, receivable, prepaid and other assets, accounts payable, accrued expenses, and other current liabilities are carried at cost, which approximates fair value due to their short-term nature.

Stock Warrants

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's terms and applicable authoritative guidance in ASC 480 - *Distinguishing Liabilities from Equity* ("ASC 480") and ASC 815 - *Derivatives and Hedging* ("ASC 815"). The Company's assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, whether they meet the liability classification pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own common stock and whether the warrant holders could potentially require "net cash set aside" in a circumstance outside of the Company's control, among other conditions for equity classification. This assessment, which requires the use of judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period-end date while the warrants are outstanding.

Allowances for Returns and Price Protection

The Company may permit product returns from, or grant price protection to, its customers under certain conditions. Price protection may be provided in the Company's practice of providing channel partners with a credit allowance to lower their wholesale price on a particular game unit that is resold to customers. The amount of the price protection for permanent markdowns is the difference between the original wholesale price and the reduced wholesale price. Credits are also given for short-term promotions that temporarily reduce the wholesale price.

Allowances for returns and price protection are considered variable consideration under ASC 606. The Company reduces revenue for estimated returns and price protections that may occur with distributors and retailers ("channel partners"). See Note 2 - *Basis of Presentation and Significant Accounting Policies - Accounts Receivable* in the 2022 Form 10-K for additional details.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

When evaluating the adequacy of allowances for returns and price protection, the Company analyzes the following: historical credit allowance sell-through of channel partners' inventory of the Company's products, current trends in retail and the video game industry, changes in customer acceptance of products, and other related factors. In addition, the Company monitors the volume of sales to its channel partners and their impact on sales. Substantial overstocking in the distribution channel could result in higher-than-expected returns or higher price protection in subsequent periods.

The Company recognized an expense of approximately \$0.00 million and \$0.3 million for sales returns and price protections as a reduction of revenues for the three and six nine months ended June 30, 2023 September 30, 2023, respectively. The Company recognized an expense of approximately \$0.1 million and \$1.1 million for sales returns and price protections as a reduction of revenues for the three and six nine months ended June 30, 2022 September 30, 2022, respectively.

Deferred Revenue

The Company's deferred revenue, or contract liability, is classified as current and is included within accrued expenses and other current liabilities on the unaudited condensed consolidated balance sheets (Also refer Note 4 - *Accrued Expenses and Other Current Liabilities*). Revenue collected in advance of the performance of the Company's performance obligation is recorded as deferred revenue until the event occurs. Development and coding revenues are also recorded as deferred revenue when the Company's performance obligation is performed.

Revenue recognized in the period from amounts included in contract liability at the beginning of the period was approximately \$0.4 million and \$0.1 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during each period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common and dilutive common-equity shares outstanding during each period. Dilutive common-equivalent shares consist of shares of options and warrants, if not anti-dilutive.

The following shares were excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

	For the Three and Six Months Ended		F M S 2 2 2 3 5	
	June 30,			
	2023	2022		
Stock options	69,992	76,167	2	
Warrants	33,574	-	3	
	<hr/> 103,566	<hr/> 76,167	<hr/> 5	

NOTE 3 - INTANGIBLE ASSETS

Licensing Agreements

The As of September 30, 2023, the Company has had license agreements with various entities related to the development of video game organization and facilitation of esports events, including BARC (TOCA) Limited ("BARC") with respect to the BTCC, British Touring Car Championship ("BTCC"), and INDYCAR LLC ("INDYCAR") with respect to the INDYCAR SERIES. As of June 30, 2023 September 30, 2023, the Company had a remaining connection with these licensing agreements of approximately \$0.8 million and \$33.5 million, which is included in purchase commitments and other current liabilities, respectively, on the unaudited condensed consolidated balance sheets.

On October 26, 2023, BARC delivered notice to the Company terminating the BTCC License Agreement (as defined in Note 9). The termination of the License Agreement was effective as of November 3, 2023. Refer to Note 12 - *Subsequent Events* for further details.

Impairment

During the three months ended June 30, 2023, the Company identified triggering events as of June 30, 2023, that indicated certain finite-lived intangible assets were at risk of impairment and as such, performed a quantitative impairment assessment to determine the recoverability of those assets.

The primary trigger for the impairment review was the Company's decision to explore strategic alternatives, including, but not limited to, the licensing of the Company's assets (the "Strategic Initiatives"), and that failure to consummate any such transaction would likely result in the Company being unable to comply with certain requirements of certain of its video game licenses.

No further indicators of impairment were identified as of September 30, 2023. As a result of the quantitative impairment assessment, the Company determined the fair value of certain licensing agreements, software and non-compete agreements were lower than their respective carrying amounts. The Company recorded an impairment loss for the three months ended June 30, 2023 of approximately \$4.0 million. million during the nine months ended September 30, 2023.

The Company determined the fair value of the finite-lived intangible assets subject to assessment using either a discounted cash flow valuation or a cost to recreate valuation model, depending on the nature of the asset. The identified impairment losses were primarily driven by a reduction in future cash flows, driven by the triggering event factors discussed above. The principal assumptions used in the discounted cash flow valuation included the forecasted cash flows and the expected proceeds from the sale of certain assets should the Company be successful in its Strategic Initiatives. The principal assumptions used in the cost to recreate valuation model were production hours, cost per hour and technological obsolescence. The Company considers these assumptions to be judgmental and subject to risk and uncertainty, which could result in further changes in subsequent periods.

The impairment loss is presented as impairment of intangible assets in the unaudited condensed statements of operations and comprehensive loss.

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Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Intangible Assets

The following is a summary of intangible assets as of **June 30, 2023** **September 30, 2023**:

	Licensing Agreements (Finite)	Licensing Agreements (Indefinite)	Software Licenses (Finite)	Distribution Contracts (Finite)	Trade Names (Indefinite)	Non- Compete Agreements (Finite)	Accumulated Amortization
Balance as of January 1, 2023	\$ 7,198,363	\$ 1,546,645	\$ 8,656,842	\$ 560,000	\$ 212,185	\$ 243,243	\$ (5,057,048)
Amortization expense	-	-	-	-	-	-	(842,350)
Impairment of intangible assets	(3,457,202)	-	(481,142)	-	-	(66,283)	-
FX translation adjustments	-	45,703	41,880	-	(28,768)	1,216	(28,890)
Balance as of June 30, 2023	<u>\$ 3,741,161</u>	<u>\$ 1,592,348</u>	<u>\$ 8,217,580</u>	<u>\$ 560,000</u>	<u>\$ 183,417</u>	<u>\$ 178,176</u>	<u>\$ (5,928,288)</u>
Weighted average remaining amortization period as of June 30, 2023	11.25	-	3.8	-	-	0.8	-
	Licensing Agreements (Finite)	Licensing Agreements (Indefinite)	Software Licenses (Finite)	Distribution Contracts (Finite)	Trade Names (Indefinite)	Non- Compete Agreements (Finite)	Accumulated Amortization
Balance as of January 1, 2023	\$ 7,198,363	\$ 1,546,645	\$ 8,656,842	\$ 560,000	\$ 212,185	\$ 243,243	\$ (5,057,048)
Amortization expense	-	-	-	-	-	-	(1,221,970)
Impairment of intangible assets	(3,457,202)	-	(483,173)	-	-	(64,252)	-
FX translation adjustments	27,506	(48,438)	(105,137)	-	(5,762)	(5,426)	7,280
Balance as of September 30, 2023	<u>\$ 3,768,667</u>	<u>\$ 1,498,207</u>	<u>\$ 8,068,532</u>	<u>\$ 560,000</u>	<u>\$ 206,423</u>	<u>\$ 173,565</u>	<u>\$ (6,271,738)</u>
Weighted average remaining amortization period as of September 30, 2023	10.8	-	3.6	-	-	0.5	-

Accumulated amortization of intangible assets consists of the following:

	Licensing Agreements (Finite)	Software Licenses (Finite)	Distribution Contracts (Finite)	Non- Compete Agreements (Finite)	Accumulated Amortization	Licensing Agreements	Software Licenses	Distribution Contracts	Non- Compete Agreements
						(Finite)	(Finite)	(Finite)	(Finite)
Balance as of January 1, 2023	\$ 1,146,010	\$ 3,212,135	\$ 560,000	\$ 138,903	\$ 5,057,048	\$ 1,146,010	\$ 3,212,135	\$ 560,000	\$ 138,903
Amortization expense	113,124	690,237	-	38,989	842,350	169,687	1,013,294	-	38,989
Foreign currency translation adjustment	1,876	24,900	-	2,114	28,890	(9,688)	6,735	-	(4,327)
Balance as of June 30, 2023	<u>\$ 1,261,010</u>	<u>\$ 3,927,272</u>	<u>\$ 560,000</u>	<u>\$ 180,006</u>	<u>\$ 5,928,288</u>				
Balance as of September 30, 2023						\$ 1,306,009	\$ 4,232,164	\$ 560,000	\$ 173,565

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Estimated aggregate amortization expense of intangible assets for the next five years and thereafter is as follows:

	2023 (remaining period)	Total
2024	\$ 767,085	
2025	1,494,431	
2026	1,356,899	
2027	1,110,113	
	348,055	
Thereafter	<hr/> 1,692,046	
	<hr/> \$ 6,768,629	

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Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

	Total
2023 (remaining period)	\$ 379,619
2024	1,480,475
2025	1,343,999
2026	1,097,212
2027	346,277
2028	278,396
Thereafter	1,373,048
	\$ 6,299,026

Amortization expense related to intangible assets was approximately \$0.4 million and \$0.4million for both the three months ended June 30, 2023 September 30, 2022, and amortization expense related to intangible assets was approximately \$0.8 1.2 million and \$1.3 million for both the six nine months ended September 30, 2023 and 2022. Within intangible assets is approximately \$3.5 1.5 million of licensing agreements that are not presently subject to amortization. Non-amortizing licensing agreements will begin amortizing upon release of the first title under the respective license agreement.

NOTE 4 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	June 30,	December 31,	September 30,
	2023	2022	2023
Accrued royalties	\$ 595,472	\$ 274,085	\$ 699,851
Accrued professional and consulting fees	732,282	720,470	768,495
Accrued development costs	93,134	172,164	101,478
Accrued taxes	23,213	149,842	70,452
Accrued payroll	703,686	372,358	547,603
Deferred revenue	136,532	311,945	208,274
Loss contingency reserves	798,268	1,100,000	892,049
Accrued other	277,011	315,560	403,739
Total	\$ 3,359,598	\$ 3,416,424	\$ 3,691,941

NOTE 5 – RELATED PARTY LOANS

On April 1, 2020, the Company entered into a promissory note (the “\$12 million Line of Credit”) with the Company’s majority stockholder, Motorsport Network Driven Lifestyle, that provides provided the Company with a line of credit of up to \$10million at an interest rate of 10% per annum, the availability of which is Motorsport Network’s Driven Lifestyle’s available liquidity. On November 23, 2020, the Company and Motorsport Network Driven Lifestyle entered into an the \$12million Line of Credit, effective in 2020, pursuant to which the availability under the \$12million Line of Credit was increased from \$10million to \$12 million. The \$12million Line of Credit does not have a stated maturity date and is payable upon demand at any time at the sole discretion of Motorsport Network, Driven Lifestyle, and any principal and accrued interest owed will be accelerated and become immediately payable if the Company consummates certain corporate events, such as a capital reorganization. The Company may prepay repay the \$12 million Line of Credit in whole or in part or from time to time without penalty or charge.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

On September 8, 2022, the Company entered into a support agreement with Motorsport Network Driven Lifestyle (the "Support Agreement") pursuant to which Motorsport Network Driven Lifestyle issued approximately \$3 million (the "September 2022 Cash Advance") to the Company in accordance with the \$12 million Line of Credit. Additionally, the Support Agreement modified the \$12 million \$12 million Line of Credit such that, among other things, until June 30, 2023, Motorsport Network Driven Lifestyle would not demand repayment of the September 2022 Cash Advance or other advances under the \$12 million Line of Credit, unless certain events have occurred, as prescribed in the Support Agreement, such as the completion of a new financing arrangement or the Company generates positive cash flow from operations, among others. All principal and accrued interest owed on the \$12 million Line of Credit were exchanged for equity following the completion of the equity exchange agreements with Motorsport Network Driven Lifestyle on January 30, 2023 and February 1, 2023, relieving the Company of approximately \$1.2 million in principal and unpaid interest in exchange for an aggregate of 780,385 shares of the Company's Class A common stock. As of June 30, 2023, the \$12 million Line of Credit remains in place. However, the Company believes that there is a substantial risk that Motorsport Network Driven Lifestyle will not fulfill any future borrowing requests, and therefore does not view the \$12 million Line of Credit as a viable source of liquidity needs.

As of June 30, 2023, September 30, 2023 and December 31, 2022, the balance due to Motorsport Network Driven Lifestyle under the \$12 million Line of Credit was \$3,670,000, respectively, as well as unpaid accrued related party interest of \$0 and \$96,667, respectively.

These amounts are presented as due to related parties in the unaudited condensed consolidated balance sheets.

Motorsport Games Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 6 – RELATED PARTY TRANSACTIONS

In addition to the \$12million Line of Credit, which is discussed in Note 5 – *Related Party Loans*, from time to time, Motorsport Network, Driven Lifestyle, an entities pay for Company expenses on the Company's behalf. During the **six** nine months ended **June 30, 2023** September 30, 2023 and 2022, the Cor expenses of approximately **\$0.2** **0.3** million and \$0.1 million, respectively, that were paid by Motorsport Network Driven Lifestyle on its behalf and are reiml Company to Motorsport Network. Driven Lifestyle. During the **six** nine months ended **June 30, 2023** September 30, 2023 and 2022, approximately **\$11.1** r million, respectively, was paid to related parties in settlement of related party payables. The Company received cash advances of \$0.2 million and \$0 from during the nine months ended September 30, 2023 and 2022, respectively.

The Company has regular related party receivables and payables outstanding as of **June 30, 2023** September 30, 2023 and December 31, 2022. Specifically owed approximately \$30,000 0.2 million to its related parties as a related party payable and was due approximately \$0.1 million from its related parties as receivable as of **June 30, 2023** September 30, 2023. As of December 31, 2022, the Company owed approximately \$0.8 4.6 million to its related parties as payable and was due approximately \$0.2 million from its related parties as a related party receivable.

Backoffice Services Agreement

On March 23, 2023 (but effective as of January 1, 2023), the Company entered into a new Backoffice Services Agreement with Motorsport Network Drive "Backoffice Services Agreement", following the expiration of the Company's prior services agreement with Motorsport Network. Driven Lifestyle. Pi Backoffice Services Agreement, Motorsport Network Driven Lifestyle will provide accounting, payroll and benefits, human resources and other back-offic full-time basis to support the Company's business functions. The term of the Backoffice Services Agreement is 12 months from the effective date automatically renew for successive 12-month terms unless either party provides written notice of nonrenewal at least 30 days prior to the end of the the The Backoffice Services Agreement may be terminated by either party at any time with 60 days prior notice. Pursuant to the Backoffice Services Agreemen is required to pay a monthly fee to Motorsport Network Driven Lifestyle of \$17,500. For the **six** nine months ended **June 30, 2023** September 30, 2023 incurred **\$105,000** **157,500** in fees in connection with the Backoffice Services Agreement, and \$52,500 for the three months ended **June 30, 2023** Septe presented in general and administrative expenses with within the unaudited condensed consolidated statements of operations.

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Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 7 – STOCKHOLDERS' EQUITY

Class A and B Common Stock

As of **June 30, 2023** **September 30, 2023**, the Company had 2,720,328 shares of Class A common stock and 700,000 shares of Class B common stock outstanding. Class A and Class B common stock are entitled to one-vote and ten-votes, respectively, for each share held on all matters submitted to stockholders.

Effective on November 10, 2022, the Company amended its certificate of incorporation to effectuate a reverse split of the issued and outstanding shares of common stock and Class B common stock at a ratio of 1-for-10.

704Games Warrants

As of **June 30, 2023** **September 30, 2023** and December 31, 2022, 704Games LLC ("704Games"), a wholly-owned subsidiary of Motorsport Games Inc., has outstanding 4,000 one-year warrants to purchase 4,000 shares of common stock at an exercise price of \$93.03 per share that were issued on October 2, 2015. As of **June 30, 2023**, the warrants had no intrinsic value and a remaining life of **2.32** years.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Registered Direct Offerings and the Wainwright Warrants

On February 1, February 2 and February 3, 2023, the Company completed three separate registered direct offerings (the "Offerings") priced at-market under with H.C. Wainwright & Co., LLC acting as the exclusive placement agent for each transaction (the "Agent"). In connection with the Offerings, the Company paid a transaction fee equal to 7.0% of the aggregate gross proceeds from each offering, non-accountable expenses and certain other closing fees. In addition, the Company granted warrants to the Agent (or its designees) to purchase shares of the Company's Class A common stock equal to 6.0% of the aggregate number of shares of common stock placed in each Offering (collectively, (collectively), the "Wainwright Warrants"). The Offerings are summarized as follows:

	Offering Date	Shares Issued	Gross Proceeds	Net Proceeds	Warrants Issued	Warrant Strike Price	Warrant Term	Offering Date	Shares Issued	Gross Proceeds	Net Proceeds	Warrants Issued	Warrant Strike Price
Registered direct offering 1	February 1, 2023	183,020	\$ 3.9 million	\$ 3.6 million	10,981	\$ 26.75	5 years	February 1, 2023	183,020	\$ 3.9 million	\$ 3.6 million	10,981	\$ 26.75
Registered direct offering 2	February 2, 2023	144,366	\$ 3.4 million	\$ 3.1 million	8,662	\$ 29.375	5 years	February 2, 2023	144,366	\$ 3.4 million	\$ 3.1 million	8,662	\$ 29.375
Registered direct offering 3	February 3, 2023	232,188	\$ 4.0 million	\$ 3.7 million	13,931	\$ 21.738	5 years	February 3, 2023	232,188	\$ 4.0 million	\$ 3.7 million	13,931	\$ 21.738

As of ~~June 30, 2023~~ September 30, 2023, the Wainwright Warrants were assessed to have a fair value of approximately \$0.1 ~~40,000~~ million and deemed to be classified awards, which were recorded within other non-current liabilities on the unaudited condensed consolidated balance sheet.

The Company utilized a Black-Scholes Option Pricing Model to determine the fair value of the Wainwright Warrants. The Black-Scholes model requires the Company to make a number of key assumptions, including expected volatility, expected term, and risk-free interest rate. The risk-free interest rate is estimated using the yield on U.S. treasury notes with a life that approximates the expected term. The expected term assumption used in the Black-Scholes model represents the period over which the Wainwright Warrants are expected to be outstanding and is estimated using the contractual term of the Wainwright Warrants. As of June 30 ~~September 30, 2023~~, the Wainwright Warrants had no intrinsic value.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Stock Purchase Commitment Agreement

During the **six nine** months ended **June 30, 2023** **September 30, 2023**, the Company issued 175,167 shares of the Company's Class A common stock, with \$657,850, to Alumni Capital LP ("Alumni Capital"). The shares were sold pursuant to a stock purchase commitment agreement that was entered into on December 31, 2021, with Alumni Capital (the "Alumni Purchase Agreement"). Under the Alumni Purchase Agreement, the Company may sell Alumni Capital up to \$2,000,000 of the Company's Class A common stock, subject to certain restrictions, through the commitment period expiring December 31, 2023. As of **June 30, 2023** **September 30, 2023**, the remaining commitment amount under the Alumni Purchase Agreement amounted to \$1,302,676.

NOTE 8 – SHARE-BASED COMPENSATION

On January 12, 2021, in connection with its initial public offering, Motorsport Games established the Motorsport Games Inc. 2021 Equity Incentive Plan (the "Stock Plan"). The MSGM 2021 Stock Plan provides for the grant of options, stock appreciation rights, restricted stock awards, performance share awards, stock unit awards, and initially authorized 100,000 shares of Class A common stock to be available for issuance. As of **June 30, 2023** **September 30, 2023**, 21,811 shares of Class A common stock were available for issuance under the MSGM 2021 Stock Plan. Shares issued in connection with awards made under the MSGM 2021 Stock Plan are generally issued as new issuances of Class A common stock.

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The majority of the options issued under the MSGM 2021 Stock Plan have time-based vesting schedules, typically vesting ratably over a three-year period. Option awards differed from this vesting schedule, notably awards made to the Company's former Chief Executive Officer in conjunction with the Company's offering that vested immediately, as well as those made to the Company's current and former directors that vest on the one-year anniversary of award issuance. Options issued under the MSGM 2021 Stock Plan expire 10 years from the grant date.

The following is a summary of stock-based compensation award activity for the ~~six~~ nine months ended ~~June 30, 2023~~ September 30, 2023:

	Number of Options
Awards outstanding under the MSGM 2021 Stock Plan as of January 1, 2023 (net of forfeitures)	74,285
Stock options awarded to Board of Directors under the MSGM 2021 Stock Plan	26,316
Forfeited, Stock options forfeited, cancelled or expired	(30,609) 75,115
Awards outstanding under the MSGM 2021 Stock Plan as of June 30, 2023 September 30, 2023 (net of forfeitures)	69,992 25,486

On April 4, 2023, the Company granted an aggregate of 26,316 stock option awards under the MSGM 2021 Stock Plan to its directors with a grant date of approximately \$0.1 million, which will fully vest on the one-year anniversary of the award issuance date. Additionally, on June 9, 2023, the Company granted restricted shares of Class A Common Stock outside of the MSGM 2021 Stock Plan, with a grant fair value of approximately \$30,000, to a consultant under a consultancy agreement entered into in February 2023. These restricted shares of Class A Common Stock will fully vest on the one-year anniversary of the consultancy agreement. There were no stock option awards or restricted shares of Class A Common Stock granted during the three months ended September 30, 2023.

Motorsport Games Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Stock-Based Compensation

The following table summarizes stock-based compensation expense resulting from equity awards included in the Company's condensed consolidated operations:

	2023		2022		2023		2022		2023	2022	2023
	For the Three Months Ended		For the Six Months Ended		For the Three Months Ended		For the Six Months Ended		For the Three Months Ended	For the Three Months Ended	For the Three Months Ended
	June 30,		June 30,		June 30,		June 30,		September 30,	September 30,	September 30,
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
General and Administrative	\$ 525,952	\$ 188,201	\$ 545,378	\$ 458,323	\$ 86,737	\$ 223,953	\$ 632,	\$ 632,			
Sales and Marketing	(16,982)	32,365	222,735	78,839	6,720	1,371	229,	229,			
Development	12,333	18,007	2,423	54,441	12,067	3,388	14,	14,			
Stock-based compensation expense	\$ 521,303	\$ 238,573	\$ 770,536	\$ 591,603	\$ 105,524	\$ 228,712	\$ 876,	\$ 876,			

As of June 30, 2023 September 30, 2023, there was approximately \$0.3 0.2million of unrecognized stock-based compensation expense which will be recognized over approximately 1.8 1.5 years.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of these proceedings in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, prospects, results of operations, financial position and/or cash flows, except as otherwise disclosed below. In light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular proceeding could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability and the level of the Company's income for that particular period. Litigation or other legal proceedings, with or without merit, is unpredictable and generally time consuming and, even if resolved in our favor, is likely to divert significant resources from our core business, including distracting our management from their normal responsibilities.

Certain conditions may exist as of the date the condensed consolidated financial statements are issued, which may result in a loss to the Company, but which may not be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves a degree of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such losses, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought and the probability of success in such legal proceedings.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the liability would be accrued in the Company's condensed consolidated financial statements. If the assessment indicates that a potential material loss is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. The Company discloses a loss contingency if it is probable that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

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On February 11, 2021, HC2 Holdings 2 Inc. (now known as Innovate 2) ("Innovate") and Continental General Insurance Company ("Continental"), four stockholders of 704Games, filed a complaint (the "HC2 and Continental Complaint") in the U.S. District Court for the District of Delaware against the Company's former Chief Executive Officer and Executive Chairman, the Company's former Chief Financial Officer, and the manager of Motorsport Network Lifestyle. The complaint was later amended and added Leo Capital Holdings LLC ("Leo Capital") as an additional plaintiff and the controller of Motorsport Network Lifestyle as an additional individual defendant. The complaint alleges, among other things, purported misrepresentations and omissions concerning 704Games' condition made in connection with the Company's purchase of these minority shareholders' interest in 704Games in August and October 2021. The complaint claims under Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 thereunder; Section 20(a) of the Exchange Act; Section 20A of the Exchange Act; breach of the Company's obligations under the Stockholders' Agreement dated August 14, 2018; fraudulent inducement; breach of fiduciary duties; and unjust enrichment. The plaintiffs seek, among other things, damages from the defendants, jointly and severally, based on the alleged difference in the fair market value of the shares of common stock of 704Games on the date of plaintiffs' sale and the purchase price that was paid, as well as punitive damages and relief. In May 2021, the Company, along with the other defendants, filed a motion to dismiss the plaintiffs' complaint. On March 28, 2022, the court entered an order denying the motion to dismiss.

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On January 11, 2023, in connection with the HC2 and Continental Complaint, the Company, along with other defendants, entered into a settlement agreement with the plaintiffs, Continental, to settle the claims made by Continental against the defendants and the claims made by the defendants against Continental. Under the terms of the settlement agreement, the Company was obligated to pay the sum of \$1.1 million to Continental. The Company paid an initial payment of approximately \$0.1 million on January 17, 2023, and was obligated to make payments of no less than approximately \$40,000 every 30 days after the initial payment date until the amount of \$1.1 million was paid in full. As of June 30, 2023 and December 31, 2022, September 30, 2023, all required payments under the settlement agreement with Continental have been made.

The Company has recognized a settlement liability of \$0.8 million and \$1.1 million, respectively, in other current liabilities as it relates to this case. The Company continues to defend its position with the remaining plaintiffs, Leo Capital and Innovate. In respect of Leo Capital's complaint, the Company believes it is probable a settlement would be reached and that such settlement was reasonably estimable at approximately \$0.2 million as of September 30, 2023. The Company has recorded and recognized a settlement liability of \$0.2 million during the three months ended September 30, 2023. As of October 14, 2023, a settlement agreement was reached and executed with Leo Capital for \$0.2 million. Refer to Note 12 - *Subsequent Events* for further details.

In respect of Innovate, the Company continues to defend its position and believes the outcome of which is uncertain at this time. The Company does not believe it is probable a settlement will be reached, nor can any such settlement amount be reasonably estimable, and has not recognized a liability in respect of the remaining plaintiff.

As of September 30, 2023, the Company has recorded a settlement liability of \$0.9 million, compared to \$1.1 million as of December 31, 2023, in respect of the Continental Complaint. The liability is recorded in accrued expenses and other liabilities. Refer to Note 4 - *Accrued Expenses and Other Current Liabilities*. For the period ended September 30, 2023, Wesco Insurance Company ("Wesco") filed a complaint in state court in Florida against the Company, as well as the other defendants, in litigation related to the HC2 and Continental Complaint (the "Underlying Action"). The Company had previously submitted the Underlying Action for coverage under a management liability policy issued by Hallmark Specialty Insurance Company and an excess policy with Wesco (the "Wesco Policy"). Wesco's complaint seeks relief to determine Wesco's obligations to the defendants under an excess policy of insurance issued to the Company by Wesco for the Underlying Action, and that there is no coverage afforded to the defendants for the Underlying Action under the Wesco Policy. The Company disagrees with and disputes Wesco's position regarding coverage for the Underlying Action under the Wesco Policy and will plan to defend its position.

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Commitments

On January 25, 2021, the Company entered into an amendment (the "Le Mans Amendment") to the Le Mans Esports Series Ltd joint venture agreement, with an increase of the Company's ownership interest in the Le Mans Esports Series Ltd joint venture from 45% to 51%. Additionally, through certain multi-agreements that were entered into in connection with the Le Mans Amendment, the Company secured the rights to be the exclusive video game developer for the 24 Hours of Le Mans race and the FIA World Endurance Championship (the "WEC"), as well as the rights to create and organize esports leagues and the 24 Hours of Le Mans race, the WEC and the 24 Hours of Le Mans Virtual event. In exchange for certain of these license rights, the Company agreed to fund up to approximately \$8,700,000 (8,500,000 USD as of June 30, 2023) September 30, 2023) as needed for development of the video game products, to be contributed on a needed basis during the term of the applicable license.

Epic License Agreement

On August 11, 2020, the Company entered into a licensing agreement with Epic Games International ("Epic") for worldwide licensing rights to Epic's proprietary program known as the Unreal Engine 4. Pursuant to the agreement, upon payment of the initial license fee described below, the Company was granted a non-transferable and terminable license to develop, market and sublicense (under limited circumstances and subject to conditions of the agreement) content using the Unreal Engine 4 for its next generation of games.

The Company will pay Epic a license fee royalty payment equal to 5% of product revenue, as defined in the licensing agreement. During the six months ended June 30, 2023 (September 30, 2023), the Company did not pay any royalties to Epic under the agreement. Pursuant to the terms of the agreement, the Company will actively develop new or existing authorized products during a 5-year period ending on August 11, 2025.

Minimum Royalty Guarantees and Other Commitments

The Company is required to make certain minimum royalty guarantee payments to third-party licensors, arising primarily from its NASCAR, INDYCAR and British Formula 1 Le Mans Video Gaming License and Le Mans Esports Licenses, as well as its former NASCAR License and, as disclosed in more detail in Note 12 - Subsequent Events, its terminated BTCC License (as defined below) (collectively the "Video Game Licenses"). These minimum royalty guarantee payments apply throughout the Video Game Licenses' agreements, which expire between fiscal years ending December 31, 2026 and 2032, and give rise to a minimum royalty guarantee of \$17.4 million for the remaining duration of these arrangements as of June 30, 2023 (September 30, 2023). The Company paid an aggregate of \$0.4 million in minimum royalty guarantee commitments during the six months ended June 30, 2023 and expects to pay an additional \$1.6 million during the remainder of the period. In addition to the minimum royalty guarantee payments, the Company is obligated by the Video Game Licenses' agreements to spend an amount on relevant marketing activities each year, aggregating to \$2.35 million across all of the agreements.

On October 3, 2023, the Company completed the sale of its NASCAR License, which relieved the Company of certain obligations – including the minimum royalty and marketing activity commitments pertaining to the NASCAR License. As a result of this transaction, the Company's minimum royalty guarantee commitments were reduced from \$17.4 million to \$11.0 million, and its annual marketing activity commitment was reduced from \$2.4 million to \$0.4 million per year. Refer to Note 12 - Subsequent Events for further details.

The Company has paid an aggregate of \$0.5 million to honor its minimum royalty guarantee commitments during the nine months ended September 30, 2023, to pay an additional \$1.3 million during the remainder of 2023 following the sale of its NASCAR License on October 3, 2023. As of June 30, 2023 (September 30, 2023), the Company has not fulfilled any of its minimum marketing obligation for fiscal year 2023. As a result of the sale of its NASCAR License on October 3, 2023, the Company no longer has a minimum marketing obligation for its NASCAR License. Refer to Note 12 - Subsequent Events for further details regarding the sale of the NASCAR License. On May 29, 2020, the Company secured a licensing agreement with BARC, the exclusive promoter of the BTCC (the "BTCC License Agreement"). Pursuant to the BTCC License Agreement, the Company was granted an exclusive license (the "BTCC License") to use certain licensed intellectual property for motorsports and gaming products related to, themed as, or containing the BTCC, on consoles, PC and mobile applications, esports series and esports events (including the esports platform). In exchange for the BTCC License, the BTCC License Agreement required the Company to pay BARC an initial fee in two equal installments, each, both of which were made prior to their respective due dates. Following the initial fee, the BTCC License Agreement also required the Company to pay BARC, including certain minimum annual guarantees, on an ongoing basis to BARC and to meet certain product distribution, marketing and related milestones, and to pay termination penalties. As of September 30, 2023, the Company had not paid two annual installments amounting to \$0.4 million and had a total remaining unpaid amount of \$0.8 million. The Company had a connection with the BTCC License, inclusive of the unpaid installments, of \$0.8 million, which is included in purchase commitments and other non-current liabilities in the unaudited condensed consolidated balance sheets. On October 26, 2023, BARC delivered notice to the Company terminating the BTCC License Agreement. The termination of the BTCC License Agreement was effective as of November 3, 2023. Refer to Note 12 - Subsequent Events for further details.

Purchase Commitment Liabilities

On April 20, 2021 the Company acquired 100% of the share capital of Studio 397 B.V. ("Studio397") from Luminis International B.V. and Technology International B.V. (collectively, the "Sellers"). The purchase price originally consisted of (i) \$12.8 million paid at closing and (ii) \$3.2 million payable April 2022 on the first anniversary of closing as deferred consideration (the "Deferred Payment"). On April 22, 2022 and July 21, 2022, the Company entered into certain letter agreements with the Sellers, which, among other things, the Deferred Payment installment amount due to be paid by the Company on the first anniversary of closing was reduced from \$1 million with the remaining \$2.2 million to be settled in installments of: \$330,000 to be paid on July 31, 2022; for the period August 15, 2022, through December 31, 2022, monthly installments of \$100,000; and for the period beginning on January 15, 2023, monthly installments of \$150,000 until the remaining Deferred Payment was satisfied. The letter agreements also call for 15% interest on the Deferred Payment balance effective on July 19, 2022. The remaining balance of the Deferred Payment as of September 30, 2023 was \$1.0 million with unpaid accrued interest of \$0.2 million.

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NOTE 10 – CONCENTRATIONS

Customer Concentrations

The following table sets forth information as to each customer that accounted for 10% or more of the Company's revenues for the following periods:

Customer	Three Months Ended				Three Months Ended	
	June 30,		June 30,		September 30, 2023	September 2022
	2023	2022	2023	2022		
Customer B	26.7%	39.5%	25.5%	26.2%	25.1%	39.9%
Customer C	29.8%	29.7%	28.5%	21.6%	28.7%	*
Customer D	24.2%	24.6%	26.0%	21.5%	19.8%	39.7%
Customer E					10.4%	*
Total	80.7%	93.8%	80.0%	69.3%	84.0%	79.6%

* Less than 10%.

The following table sets forth information as to each customer that accounted for 10% or more of the Company's trade accounts receivable as of:

Customer	June 30, 2023		December 2022	
	2023	2022	2023	2022
Customer A			*	
Customer B			29.5%	
Customer C			46.7%	
Customer D			18.4%	
Total			94.6%	

Customer	September 30, 2023		December 2022	
	2023	2022	2023	2022
Customer A			*	
Customer B			23.0%	
Customer C			42.0%	
Customer D			13.9%	
Total			78.9%	

* Less than 10%.

A reduction in sales from or loss of these customers, in a significant amount, could have a material adverse effect on the Company's results of operations or financial condition.

Supplier Concentrations

The following table sets forth information as to each supplier that accounted for 10% or more of the Company's cost of revenues for the following periods:

Supplier	Three Months Ended				Three Months Ended	
	June 30,		June 30,		September 30, 2023	September 2022
	2023	2022	2023	2022		
Supplier A	66.5%	54.7%	41.8%	27.4%	62.3%	*
Supplier C	*	16.9%	*	*	*	*
Supplier B					*	*
Total	66.5%	71.6%	41.8%	27.4%	62.3%	0.00%

* Less than 10%.

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Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 11 – SEGMENT REPORTING

The Company's principal operating segments coincide with the types of products and services to be sold. The products and services from which revenues consistent with the reporting structure of the Company's internal organization. The Company's two reportable segments for the three months six and nine **June 30, 2023** **September 30, 2023** and 2022 were (i) the development and publishing of interactive racing video games, entertainment content and service segment"; and (ii) the organization and facilitation of esports tournaments, competitions and events for the Company's licensed racing games as well as on party video game racing series and other video game publishers (the "Esports segment"). The Company's Chief Operating Decision Maker ("CODM") has been the Company's Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the segment. Segment information is presented based upon the Company's management organization structure as of **June 30, 2023** **September 30, 2023** and the distribution of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed. There are no inter-segment transactions and, therefore, revenues are only to external customers. As the Company primarily generates its revenues from customers in the United States, geographical segments are presented.

Segment operating profit is determined based upon internal performance measures used by the CODM. The Company derives the segment results from its management reporting system. The accounting policies the Company uses to derive reportable segment results are the same as those used for external purposes. Management measures the performance of each reportable segment based upon several metrics, including net revenues, gross profit and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. The Company manages corporate expenses separately at the corporate level and does not allocate such expenses to the segments. Segment income from operations excludes interest income, other income or expenses and income taxes according to how a particular reportable segment's management is measured. Management does not consider charges and unallocated costs in measuring the performance of the reportable segments.

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Segment information available with respect to these reportable business segments was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023		2022		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues:								
Gaming	\$ 1,739,096	\$ 1,941,938	\$ 3,178,313	\$ 4,900,326	\$ 1,693,871	\$ 1,042,852	\$ 4,872,184	
Esports	34	67,049	290,172	430,450	-	180,290	290,172	
Total Revenues	\$ 1,739,130	\$ 2,008,987	\$ 3,468,485	\$ 5,330,776	\$ 1,693,871	\$ 1,223,142	\$ 5,162,356	
Cost of Revenues:								
Gaming	\$ 865,309	\$ 820,737	\$ 1,740,148	\$ 2,224,744	\$ 831,479	\$ 540,519	\$ 2,571,627	
Esports	858	35,420	374,755	645,219	-	62,337	374,755	
Total Cost of Revenues	\$ 866,167	\$ 856,157	\$ 2,114,903	\$ 2,869,963	\$ 831,479	\$ 602,856	\$ 2,946,382	
Gross Profit (Loss):								
Gaming	\$ 873,787	\$ 1,121,201	\$ 1,438,165	\$ 2,675,582	\$ 862,392	\$ 502,333	\$ 2,300,557	
Esports	(824)	31,629	(84,583)	(214,769)	-	117,953	(84,583)	
Total Gross Profit	\$ 872,963	\$ 1,152,830	\$ 1,353,582	\$ 2,460,813	\$ 862,392	\$ 620,286	\$ 2,215,974	
Loss From Operations:								
Gaming	\$ (8,559,203)	\$ (6,393,338)	\$ (13,664,576)	\$ (21,437,759)	\$ (2,575,449)	\$ (6,515,203)	\$ (16,240,025)	
Esports	(54,104)	(292,077)	(360,120)	(851,006)	(89,346)	(1,037,274)	(449,466)	
Total Loss From Operations	\$ (8,613,307)	\$ (6,685,415)	\$ (14,024,696)	\$ (22,288,765)	\$ (2,664,795)	\$ (7,552,477)	\$ (16,689,491)	
Depreciation and Amortization:								
Gaming	\$ 92,497	\$ 109,656	\$ 177,615	\$ 217,139	\$ 63,332	\$ 84,326	\$ 240,947	
Esports	12,357	8,069	24,593	16,657	12,282	8,377	36,875	
Total Depreciation and Amortization	\$ 104,854	\$ 117,725	\$ 202,208	\$ 233,796	\$ 75,614	\$ 92,703	\$ 277,822	
Interest Expense, net:								
Gaming	\$ (244,750)	\$ (191,662)	\$ (443,870)	\$ (393,258)	\$ (230,190)	\$ (244,953)	\$ (674,060)	
Esports	-	-	-	-	-	-	-	
Total Interest Expense, net	\$ (244,750)	\$ (191,662)	\$ (443,870)	\$ (393,258)	\$ (230,190)	\$ (244,953)	\$ (674,060)	
Other Income (Expense), net:								
Gaming	\$ 664,264	\$ (610,481)	\$ 1,032,508	\$ (767,605)	\$ (639,102)	\$ (729,158)	\$ 393,406	
Esports	(7,089)	(113)	(24,016)	(5,088)	(45)	(10,127)	(24,061)	
Total Other Income (Expense), net	\$ 657,175	\$ (610,594)	\$ 1,008,492	\$ (772,693)	\$ (639,147)	\$ (739,285)	\$ 369,345	
Net Loss:								
Gaming	\$ (8,139,689)	\$ (7,195,481)	\$ (13,075,938)	\$ (22,598,621)	\$ (3,444,132)	\$ (7,489,314)	\$ (16,520,070)	
Esports	(61,193)	(292,190)	(384,136)	(856,095)	(90,000)	(1,047,401)	(474,136)	
Total Net Loss	\$ (8,200,882)	\$ (7,487,671)	\$ (13,460,074)	\$ (23,454,716)	\$ (3,534,132)	\$ (8,536,715)	\$ (16,994,206)	
					June 30, 2023	December 31, 2022	September 30, 2023	
Total Assets:								
	Gaming				\$ 11,104,297	\$ 16,315,359	\$ 9,184,841	
	Esports				2,231,942	2,582,433	2,228,771	
Total Assets					\$ 13,336,239	\$ 18,897,792	\$ 11,413,612	

NOTE 12 - SUBSEQUENT EVENTS

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the unaudited consolidated financial statements were issued.

On July 28, 2023, Wesco filed a complaint in state court in Florida against the Company, 704Games and iRacing entered into an Assignment Agreement (the "iRacing Agreement"), whereby 704Games sold and transferred its NASCAR licensed rights under that certain Second Amendment to the Distribution and License Agreement, by and between 704Games and NASCAR Team Properties ("NTP") (the "NASCAR License"), to iRacing. As consideration for the assignment of the NASCAR License and all rights related thereto, which was approved by NTP, iRacing paid \$5 million to 704Games on October 3, 2023 (the "Closing Date"). In addition, iRacing is obligated under the iRacing Agreement to pay 704Games an additional (i) \$0.5 million payable six months after the Closing Date and (ii) \$0.5 million payable on the earlier of (a) when all NASCAR games have been removed by 704Games from its various Business Platforms (as defined in the iRacing Agreement) by December 31, 2024, provided that all NASCAR games have been removed by 704Games from its various Business Platforms, and in any event, no earlier than the Closing Date. iRacing also assumed all liabilities that accrue under the NASCAR License following the date of the iRacing Agreement (the "Assumed Liabilities"). Pursuant to the iRacing Agreement, 704Games cannot develop, create or license any new content related to NASCAR games other than ordinary course of business "patches" and planned NASCAR Heat 5 2022 Season downloadable content ("DLC"). Furthermore, 704Games has agreed that it will not restrict, limit or impede, directly or indirectly, iRacing from obtaining any additional licenses from NASCAR, including, but not be limited to, any racetracks, race cars, race car drivers or any NASCAR teams.

On October 3, 2023, 704Games entered into a Consent to Assignment and Assumption of, and Releases (the "NASCAR Consent") with NTP and iRacing with respect to transactions contemplated by the iRacing Agreement. Pursuant to the NASCAR Consent, as well as a condition to NTP's consent to the iRacing Agreement, NTP paid 704Games an amount consisting of (i) the remaining portion of the minimum annual guarantee under the NASCAR License for 2023 in the amount of \$656,115, and (ii) a mutually agreed upon reduced amount of the minimum annual guarantee under the NASCAR License for 2024 in the amount of \$598,000 (together, the "NASCAR Consent Payment"). The NASCAR Consent Payment was paid from the proceeds 704Games received from iRacing upon the closing of the transactions contemplated by the iRacing Agreement.

On October 3, 2023, 704Games entered into a new Limited License Agreement with NTP (the "NASCAR New Limited License"). Pursuant to the NASCAR New Limited License, NTP granted 704Games a limited non-exclusive right and license to manage, support, operate, distribute, provide operational sell-off marketing incentives and promotions) and sell the Licensed Products (as defined in the NASCAR New Limited License), which generally consist of NASCAR games and content currently in the Company's product portfolio, through December 31, 2024. The sell-off marketing (including sales incentives and promotions) will be subject to the Company's written approval, which approval will not be unreasonably withheld. 704Games may, at its option, distribute the Licensed Products for sale to consumers and end-users directly, directly via the internet subject to the limitations in the NASCAR New Limited License and/or via distributors on a regional (i.e., country-by-country) basis. In consideration of the rights granted in the NASCAR New Limited License, 704Games is obligated to pay NTP a royalty as a percentage of Net Sales (as defined in the NASCAR New Limited License) of Licensed Products, subject to prepayment by 704Games of the NASCAR Consent Payment.

The NASCAR New Limited License does not grant 704Games any right to create, make and/or sell any new product as the NASCAR New Limited License is limited to allowing 704Games to continue supporting the Licensed Products created pursuant to the original NASCAR License through December 31, 2024.

On October 14, 2023, the Company, along with other defendants involved (collectively the "Defendants"), entered into a settlement agreement with Leo Capital, which settles the claims made by Leo Capital against the Defendants, as well as the claims made by the Defendants against Leo Capital. Under the terms of the settlement agreement, the Company is obligated to pay the sum of \$0.2 million to Leo Capital. The Company paid the full \$0.2 million settlement on October 16, 2023, in accordance with the terms of the settlement agreement.

On October 29, 2023, the Company determined to restructure its business and implement additional measures to continue lower operating expenses through the closure of its Australian development studio and the resulting reduction of the Company's workforce primarily in Australia and the United Kingdom by approximately 40% of the Company's employees worldwide. The Company expects to record a restructuring charge related to the workforce reduction, primarily consisting of severance and redundancy costs, in a preliminary estimated range of \$0.4 million to \$0.6 million. The Company expects to recognize and pay out the majority of the restructuring charge in the fourth quarter of fiscal year 2023. The Company further expects that the implementation of the workforce reduction, including cash payments, will be substantially complete by the end of the fourth quarter of fiscal year 2023. The reduction is subject to legal requirements primarily in Australia and the United Kingdom, which may extend this process beyond the fourth quarter of fiscal year 2023 in certain cases, and the actual restructuring charge may differ materially from the estimated range disclosed above. As a consequence of the reductions, we were necessary to suspend the development of our previously planned INDYCAR title until such time we are able to secure additional funding and capable of delivering a high-quality INDYCAR video game title.

On October 26, 2023, BARC delivered notice to the Company terminating the BTCC License Agreement. The termination of the BTCC License Agreement was effective on November 3, 2023. As a result, the Company no longer has the right to develop and publish the video games for the BTCC racing series or to create and organize leagues and events. Following the termination of the BTCC License Agreement, all outstanding royalties payable and other sums payable by the Company became due and payable. As of the date of this Report, approximately \$0.8 million was due to BARC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K") Securities and Exchange Commission (the "SEC") on March 24, 2023 and the condensed consolidated financial statements and accompanying notes include 1 of this Report. Unless the context requires otherwise, references to the "Company," "Motorsport Games," "we," "us" and "our" refer to Motorsport Delaware corporation.

About Motorsport Games

Motorsport Games is a leading racing game developer, publisher and esports ecosystem provider of official motorsport racing series throughout the world. We currently have the official license to develop and publish racing video games for the NASCAR, the iconic 24 Hours of Le Mans endurance race ("Le Mans") and the associated FIA World Endurance Championship (the "WEC"), INDYCAR, the British Touring Car Championship (the "BTCC") and others. Our portfolio is comprised of some of the most prestigious motorsport leagues and events in the world. Furthermore, we have acquired the KartKraft karting simulation game as well as Studio 397 B.V. ("Studio397") and their rFactor 2 realistic racing simulator technology and platform, which we have integrated into our racing game titles and their underlying technology to our portfolio.

Started in 2018 as a wholly-owned subsidiary of Motorsport Network, Driven Lifestyle, we are currently the official developer and publisher of the NASCAR racing franchise and have obtained the official licenses to develop multi-platform games for the BTCC, the 24 Hours of Le Mans race and the WEC, as well as other racing series. We also develop and publish multi-platform racing video games including for game consoles, personal computers (PCs) and mobile platforms through various racing channels, including full-game and downloadable content.

On October 3, 2023, we sold our NASCAR licensed rights under that certain Second Amended and Restated Distribution and License Agreement with iRacing.com Motorsport Simulations, LLC ("iRacing") ("NASCAR License") to iRacing.com Motorsport Simulations, LLC. Prior to the sale of our NASCAR License, we had been the official developer and publisher for the NASCAR video game racing franchise and had the exclusive right to create and organize esports leagues and events for NASCAR racing video games, in each case, subject to certain limited exceptions. Concurrently with the sale of our NASCAR License, we entered into an agreement pursuant to which we have a limited non-exclusive right and license to, among other things, sell our NASCAR games and downloadable content ("DLC") that we have developed in our product portfolio through December 31, 2024 (the "NASCAR New Limited License"). For the three and six months ended June 30, 2023 September 30, 2022, a majority of our revenue was generated from sales of our NASCAR racing video games.

In addition, on October 26, 2023, BARC (TOCA) Limited ("BARC"), the exclusive promoter of the BTCC, delivered notice to the Company terminating the license agreement between the parties relating to the Company's development of video games and the organization and facilitation of esports events for the BTCC (the "BTCC License"). As a result, the Company no longer has the right to develop and publish the video games for the BTCC racing series or to create and organize its esports leagues. See Note 12 – *Subsequent Events* in our condensed consolidated financial statements for additional details regarding our sale of the NASCAR License and termination of the BTCC License.

As discussed elsewhere in this Report, due to the uncertainty surrounding the Company's ability to raise funding, and in light of its liquidity constraints and anticipated future funding requirements, the Company has decided to continue to explore other strategic alternatives and potential options for its business, including, but not limited to, the sale or licensing of certain of our assets in addition to the Company's assets. For example, the Company is currently in discussions with a third-party for the potential recent sale of the Company's NASCAR license. If any such additional strategic alternative is executed, it is expected to improve our working capital position and reduce overhead expenditures, thereby lowering our expected future cash-burn, and provide some short-term liquidity. Nonetheless, even if we are successful in implementing one or more additional strategic alternatives, we will continue to require additional funding and cost reduction measures in order to continue operations, which includes further restructuring of our business and operations. There are no assurances that the Company will even be successful in implementing any additional strategic plan for the sale or licensing of its assets, including the consummation of the sale of the Company's NASCAR license, or any other strategic alternative, which may be subject to the satisfaction of conditions beyond the Company's control, such as the required consent from NASCAR with respect to any sale or transfer of control.

As part of the Company's NASCAR license. Accordingly, as the Company continues to address its ongoing liquidity constraints, it has re-evaluated its product roadmap and determined that changes to the expected timing and scope of product releases including is required. Specifically, we have determined that our upcoming Le Mans Ultimate game release date will be moved from December 2023 to anticipated February 2024 release date. In addition, following our decision on October 29, 2023 to complete a restructuring of our operations that primarily involved the release closure of any future NASCAR games, which have been put on hold indefinitely. Further, our Australian development studio, as well as the Company's headcount in the United Kingdom, we determined it was necessary to suspend the development of our previously planned INDYCAR title until such time as we secure additional funding and capable resources to be able to deliver a high-quality INDYCAR video game title. We plan to continue evaluating its product roadmap and ability to deliver new titles under its other licenses, such as with INDYCAR and the BTCC, which may result in further adjustments to the Company's product roadmap. See Note 1 – *Business Organization, Nature of Operations, and Risks and Uncertainties* in our condensed consolidated financial statements and Note 13 – "Liquidity and Capital Resources" in this Report for further information.

As of June 30, 2023 September 30, 2023, we have a total headcount of 10490 people, made up of 10288 full-time employees, including 6562 dedicated to game development. Our headcount numbers as of June 30, 2023 September 30, 2023, reflect that we have ceased our development operations in Russia effective October 2022, as a result of the Ukraine-Russia conflict and as such, we do not expect the Company's development operations to have significant exposure to the circumstances arising from the Ukraine-Russia conflict. On October 29, 2023, we made a decision to further restructure our business, which resulted in the closure of our Australian development studio and a reduction of our global workforce primarily in Australia and the United Kingdom by approximately 40 employees. See Note 14 – "Restructuring Initiatives" below for additional information.

Reportable Segments

We use "the management approach" in determining reportable operating segments. The management approach considers the internal organization and by our chief operating decision maker for making operating decisions and assessing performance as the source for determining our reportable segments. Our chief operating decision maker is our Chief Executive Officer ("CEO"), who reviews operating results to make decisions about allocating resources and assessing performance across the entire company. We classified our reportable operating segments into (i) the development and publishing of interactive racing video games, entertainment and services (the "Gaming segment") and (ii) the organization and facilitation of esports tournaments, competitions, and events for our licensed racing game titles on behalf of third-party video game racing series and other video game publishers (the "Esports segment").

2022 Restructuring Program Initiatives

On September 8, 2022, As previously disclosed in the 2022 Form 10-K, the Company announced an organizational restructuring program organized in 2022 (the "2022 Restructuring Program") designed to reduce the Company's marketing, general and administrative expenses, improve the Company's profitability and maximize efficiency, cash flow and liquidity. The 2022 Restructuring Program includes right-sizing the organization and operating liquidity, with a focus on workflows and processes. The primary components of the organizational restructuring involve consolidating certain functions; reducing layers achieved through savings of management, where appropriate, to increase accountability and effectiveness; and streamlining support functions to reflect the new organizational structure. The leaner organizational structure is also expected to improve communication flow and cross-functional collaboration, leveraging the more efficient business processes. In addition, given the ongoing uncertain economic environment and the potential effect that it could have on the Company's net sales, these actions will allow the Company with additional flexibility.

As a result of the 2022 Restructuring Program, the Company initially expected to eliminate approximately 20% of its overhead costs worldwide and deliver \$4 million of total annualized cost reductions by the end of 2023, fiscal year 2023. The Company achieved \$2.5 million of which \$2.5 million was achieved this target by the end of 2022. As 2022 and as of June 30, 2023, the Company had September 2023, it has increased its annualized savings to \$4.9 million \$6.5 million having incurred restructuring costs of approximately \$1.3 million to date.

In addition to the 2022 Restructuring Program, the Company announced on October 29, 2023, a further restructuring of its business due to its operational constraints. The announcement confirmed the closure of the Company's Australian development studio and resulted in a reduction of the Company's approximately 40 employees, the majority of whom were based in Australia and the United Kingdom, representing approximately 40% of the Company's global workforce. The Company expects to record a restructuring expense of approximately \$0.4 to \$0.5 million related to the workforce reduction, primarily consisting of redundancy costs, in the fourth quarter of fiscal year 2023. The Company believes the implementation of the workforce reduction, including cash payments, will be substantially complete by the end of the fourth quarter of fiscal year 2023. As a consequence of the closure of the Australia development studio, the Company has decided to suspend the development of its previously planned INDYCAR title until such time that it is able to secure additional funding and capabilities to be able to deliver a high-quality INDYCAR video game title.

The Company continues to seek to reduce its monthly net cash-burn by reducing its cost base through maintaining and enhancing cost control initiatives that it expects to achieve through the 2022 Restructuring Program, and is evaluating the structure of its business for additional changes in order to improve its short-term and long-term liquidity position.

Trends and Factors Affecting Our Business

Product Release Schedule: Our financial results are impacted by the timing of our product releases and the commercial success of those titles. Our recent product releases include:

Title	Release Date and Platform
NASCAR 21: Ignition	October 28, 2021, available on PC and consoles
NASCAR Heat Ultimate Edition+ KartKraft	November 19, 2021, available on Nintendo Switch
rFactor 2 Q1 2022 Content Update	January 26, 2022, available on PC (full release)
rFactor 2 Q2 2022 Content Update	February 7, 2022, available on PC
rFactor 2 Q3 2022 Content Update	May 10, 2022, available on PC
NASCAR 21: Ignition 2022 Season Expansion	August 8, 2022, available on PC
NASCAR Rivals	October 6, 2022, available on PC and next generation consoles
rFactor 2 Q4 2022 Content Update	October 14, 2022, available on Nintendo Switch
rFactor 2 Q1 2023 Content Update	November 7, 2022, available on PC
NASCAR Heat 5 – Next Gen Car Update	February 21, 2023, available on PC
rFactor 2: Race Control multiplayer	June 23, 2023, available on PC and consoles
	October 5, 2023, available on PC

We continually evaluate our planned product release schedule and modify the timing of upcoming products based on developments in our business, or if we result in a better consumer experience. For example, we have recently modified our produce release schedule to postpone the timing release of the upcoming game to 2024, from an original planned release in 2023, and currently anticipate a December 2023 release date for our upcoming Le Mans Ultimate game, announced from December 2023 to February 2024 in June 2023.

Further, in order to deliver a better product, and we have suspended the development of our INDYCAR title until such time we have sufficient liquidity and deliver a high-quality game. In addition, the sale of our NASCAR License and the termination of our BTCC License, as discussed above and disclosed elsewhere in this Report, has impacted our long-term product release schedule as we will no longer be producing NASCAR and BTCC titles moving forward.

As we continue to evaluate the cost saving initiatives and explore other strategic alternatives and potential options for our business, including, but not uncertainty surrounding the Company's ability to raise funding, and in light sale or licensing of its liquidity position and anticipated future funding needs. The Company is currently in discussions with a third-party for the potential sale certain of the Company's NASCAR license. There are no assurances that the consummate a sale of the Company's NASCAR license, which is subject to the satisfaction of conditions beyond the Company's control, such as, among other things, required consent from NASCAR. As a result, in the second quarter of 2023, the Company decided that the release of any future NASCAR games will be indefinite. Additionally, the Company is evaluating its ability to deliver new titles under its other licenses, such as with INDYCAR and the BTCC, which may require assets, further adjustments to the Company's product roadmap. See Note 1 – *Business Organization, Nature of Operations, and Risks and Uncertainties* in consolidated financial statements and "—Liquidity and Capital Resources" for further information. The roadmap may be required.

Hardware Platforms: We derive most of our revenue from the sale of products made for PCs, mobile devices, and video game consoles manufactured such as Sony Interactive Entertainment Inc.'s ("Sony") PlayStation and Microsoft Corporation's ("Microsoft") Xbox consoles. The success of our business is dependent on consumer acceptance of video game console/PC platforms and continued growth in the installed base of these platforms. When new hardware platforms such as those released by Sony and Microsoft in November 2020, demand for interactive entertainment used on older platforms typically declines, which affect our business during the market transition to the new consoles. The latest generation of Sony and Microsoft consoles provide "backwards compatibility" to play games for the previous generation of consoles), which could mitigate the risk of such a decline. However, we cannot be certain how backward compatibility will affect demand for our products.

Concentration of Sales: Our NASCAR products have historically accounted for the majority of our revenue. However, we have worked to diversify our product and revenue from other sources by introducing titles such as KartKraft, rFactor 2 and the 24 Hours of Le Mans Virtual esports event to our portfolio of products and thereby reducing our dependency on the NASCAR franchise as our substantially sole source of revenue. For example, revenues associated with our NASCAR products accounted for approximately 67.5% 70.9% and 61.1% 60.5% of our total revenue for the six nine months ended June 30, 2023 September 30, 2023 and 2022. Following the sale of our NASCAR License and the execution of the NASCAR New Limited License, which allows us to sell our NASCAR games and DLCs that are part of our product portfolio through December 31, 2024, we anticipate the amount of revenue to be generated by our existing NASCAR products to decline over time.

our product portfolio through December 31, 2024, we anticipate the amount of revenue to be generated by our existing NASCAR products to decline over time. Our physical gaming products are sold through a distribution network with an exclusive partner who specializes in the distribution of mass-market retailers (e.g., Target, Wal-Mart), consumer electronics stores (e.g., Best Buy), discount warehouses, game specialty stores (e.g., GameStop) and retail stores (e.g., Amazon). Due to our modified product release schedule, we did not recognize significant revenue from sales of physical gaming products in the six months ended **June 30, 2023** September 30, 2023. We expect to continue to use a limited number of distribution partners in the future for sales of gaming products and as such, concentration risk remains a relevant factor for the Company. See "Risk Factors—Risks Related to Our Business and the importance of retail sales to our business exposes us to the risks of that business model" and "Risk Factors—Risks Related to Our Business and Industry" depend on a single third-party distribution partner to distribute our games for the retail channel, and our ability to negotiate favorable terms with such continued willingness to purchase our games is critical for our business" in Part I, Item 1A of the 2022 Form 10-K for additional information regarding the retail sales and our distribution partners to our business.

Digital Business: Players increasingly purchase our games as digital downloads, as opposed to purchasing physical discs. All of our titles that are available to purchase as packaged goods products are also available through direct digital download. For the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, and 2022, **84.2%** **86.9%** and **67.0%** **68.0%**, respectively, of our revenue from sales of video games for game consoles and PCs, **net of sales reserves**, was through digital download. We believe this trend of increasing direct digital downloads is primarily due to benefits relating to convenience and accessibility that digital downloads provide. As part of our digital business strategy, we aim to drive ongoing engagement and incremental revenue from recurrent consumer spending on our titles through digital purchases and extra content.

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Esports: We are striving to become a leader in organizing and facilitating esports tournaments, competitions, and events for our licensed racing games as well as those of third-party racing game developers and publishers. The first quarter of 2023 was another successful quarter for our Esports segment, with the grand Mans Virtual Series 2022/23, the 24 Hours of Le Mans Virtual, in January and the return of the popular community rFactor 2 competition 'GT Challenge'. esports events had a cumulative total. We intend to continue exploring opportunities to expand the recurring portion of approximately 8.8 million views to approximately 27 million minutes watched for the three months ended June 30, 2023. our Esports segment outside of Le Mans.

Recurring Revenue Sources: Our business model includes revenue that we deem recurring in nature, such as which historically consisted primarily of revenue from annualized sports NASCAR video game racing franchise (currently NASCAR) for game consoles, PC, and mobile platforms. We deem this recurring because game owners purchase, sometimes free of charge, annual updates, which includes updated drivers, liveries, and cars as they are released. We historically have forecast the revenue from this area of our business with greater relative confidence than for new games, services, and business models. As Following the NASCAR License and as we continue to incorporate new business models and modalities of play into our games, our goal is to continue to look for opportunities to expand the recurring portion of our business, including through the planned introduction of new annualized sports franchise games, such as with

Components of Our Results of Operations

Revenues

We have historically derived substantially all of our revenue from sales of our games and related extra content that can be played by customers on a variety of platforms, including game consoles, mobile phones, PCs and tablets. Starting in 2019, we began generating sponsorship revenues from our production of live and recorded racing events. In early 2022, we also began offering software development services for racing simulators.

Our product and service offerings included within the Gaming segment primarily include, but are not limited to, full PC, console, and mobile games with local and offline functionality, which generally include:

- the initial game delivered digitally or via physical disk at the time of sale, which also typically provides access to offline core game content;
- updates to previously released games on a when-and-if-available basis, such as software patches or updates, and/or additional content to be released in the future, both paid and free; and
- outsourced code and content development services.

Our product and service offerings included within the Esports segment relate primarily to curating esports events.

Cost of Revenues

Cost of revenues for our Gaming segment is primarily comprised of royalty expenses, which historically has been attributable to our license arrangement with the **License prior to its sale** and certain other third parties relating to our NASCAR racing series games. Cost of revenues for our Gaming segment is also comprised of merchant fees, disk manufacturing costs, packaging costs, shipping costs, warehouse costs, distribution fees to distribute products to retail stores, mobile advertising costs associated with our mobile revenue (for transactions in which we are acting as the principal in the sale to the end customer) and amortization of certain agreements and other intangible assets acquired through our various acquisitions. Furthermore, cost of revenues for our Gaming segment includes costs of our outsourced code and content development services. Cost of revenues for our Esports segment consists primarily of the cost of event staffing and event production.

Sales and Marketing

Sales and marketing expenses are primarily composed of salaries, benefits and related taxes of our in-house marketing teams, advertising, marketing, and promotional expenses, including fees paid to social media platforms, Motorsport Network **Driven Lifestyle** and other websites where we market our products.

Development

Development expenses consist of the cost to develop the games we produce, which includes salaries, benefits, and operating expenses of our in-house teams, as well as consulting expenses for any contracted external development. Development expenses also include expenses relating to our software maintenance, and studio operating expenses.

General and Administrative

General and administrative expenses consist primarily of salaries, benefits and other costs associated with our operations including, finance, human resources, information technology, public relations, legal audit and compliance fees, facilities, and other external general and administrative services.

Depreciation and Amortization

Depreciation and amortization expenses include depreciation on fixed assets (primarily computers and office equipment), as well as amortization of certain intangible assets acquired through our various acquisitions.

Results of Operations**Three Months Ended June 30, 2023 September 30, 2023 compared to Three Months Ended June 30, 2022 September 30, 2022**

In this section, references to 2023 refer to the three months ended June 30, 2023 September 30, 2023 and references to 2022 refer to the three months ended June 30, 2022 September 30, 2022.

Revenue

	For the Three Months Ended June 30,				For the Three Months Ended		
	2023		2022		Change		September 30, C
	2023	2022	\$	%	2023	2022	\$
Revenues:							
Gaming	\$ 1,739,096	\$ 1,941,938	\$ (202,842)	(10.4)%	\$ 1,693,871	\$ 1,042,852	\$ 651,019
Esports	34	67,049	(67,015)	(99.9)%	-	180,290	(180,290)
Total Revenues	\$ 1,739,130	\$ 2,008,987	\$ (269,857)	(13.4)%	\$ 1,693,871	\$ 1,223,142	\$ 470,729

Consolidated revenues were \$1.7 million and \$2.0 million \$1.2 million for 2023 and 2022, respectively, a decrease an increase of \$0.3 million \$0.5 million, when compared to the prior period.

Gaming segment revenues represented approximately 100% and 96.7% 85.3% of our total 2023 and 2022 revenues, respectively, increasing by \$0.7 million, compared to the prior period. The increase in Gaming segment revenues in 2023 when compared to 2022 was primarily due to higher digital game sales and content ("DLC") sales of \$0.7 million, driven by improved NASCAR product sales following the release of the NASCAR Heat 5: Next Gen Update DLC in June 2023. Esports segment revenues represented approximately 0% and 14.7% of our total 2023 and 2022 revenues, respectively, decreasing by \$0.2 million, compared to the prior period. The decrease in Gaming segment revenues was primarily due to \$0.7 million in lower digital and mobile game sales, driven by a reduction in sales and less favorable pricing, and a \$0.4 million reduction in revenues earned through the development of simulation platforms for third parties. The decrease in digital and mobile game sales was primarily driven by a \$0.5 million reduction in NASCAR title sales on PC, consoles and mobile platforms and a \$0.2 million reduction in KartKraft title sales on PC. The lower period over period revenues were partially offset by a \$0.8 million reduction in sales allowances recognized in 2023 compared to 2022.

Esports segment revenues represented approximately 0% and 3.3% of our total 2023 and 2022 revenues, respectively, decreasing by \$0.1 million, or approximately 3.3%, when compared to the prior period. The decrease in Esports segment revenue in 2023 was primarily due to lower sponsorship revenue from our the Le Mans Virtual Series which completed has not yet commenced its 2023-24 season. Esports segment revenues for 2022 consisted of sponsorship revenue from the Le Mans Virtual Series 2022-23 season, which commenced in January 2023. September 2022.

Cost of Revenues

	For the Three Months Ended June 30,				For the Three Months Ended		
	2023		2022		\$		%
	Cost of Revenues:						
Gaming	\$ 865,309	\$ 820,737	\$ 44,572	5.4%	\$ 831,479	\$ 540,519	\$ 290,960
Esports	858	35,420	(34,562)	(97.6)%	-	62,337	(62,337)
Total Cost of Revenues	\$ 866,167	\$ 856,157	\$ 10,010	1.2%	\$ 831,479	\$ 602,856	\$ 228,623

Consolidated cost of revenues were \$0.9 million \$0.8 million and \$0.6 million for both 2023 and 2022, remaining flat respectively, an increase of \$0.2 million, compared to the prior period.

Gaming segment cost of revenues represented approximately 99.9% 100% and 95.9% 89.7% of our total 2023 and 2022 cost of revenues, respectively approximately \$0.05 million \$0.3 million, or 5.4% 53.8%, when compared to the prior period. The increase in Gaming segment cost of revenues was primarily \$0.1 million \$0.3 million increase in royalty and license fees, driven by increases in the annual contractual minimum royalty guarantee payments due to licensees. This increase was partially offset by a \$0.05 million reduction in game production costs, which were higher in 2022 due to the development platform for a third-party that did not repeat in 2023.

Esports segment cost of revenues represented approximately 0.1% 0% and 4.1% 10.3% of our total 2023 and 2022 cost of revenues, respectively, decreasing \$0.1 million, or 97.6% 100%, when compared to the prior period. The decrease in cost of revenues from our Le Mans Virtual 2023 as a result of the competition not yet commencing its 2023-24 season. Esports segment cost of revenues was primarily driven by \$0.04 million of live televised production costs. for 2022 represented costs incurred relating to the Le Mans Virtual Series 2022-23 season, which commenced in September 2022.

Gross Profit

	For the Three Months Ended June 30,				Change		
	2023		2022		\$		
	Gross Profit (Loss):						
Gaming	\$ 873,787	\$ 1,121,201	\$ (247,414)				
Esports	(824)	31,629	(32,453)				
Total Gross Profit (Loss)	\$ 872,963	\$ 1,152,830	\$ (279,867)				
Gaming - Gross Profit Margin			50.2%				
Esports - Gross Profit Margin			(2,423.5)%				
Total Gross Profit Margin			50.2%				

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	For the Three Months Ended September 30,				Change		
	2023		2022		\$		
	Gross Profit:						
Gaming	\$ 862,392	\$ 502,333	\$ 360,059				
Esports	-	117,953	(117,953)				
Total Gross Profit	\$ 862,392	\$ 620,286	\$ 242,106				
Gaming - Gross Profit Margin	50.9%	48.2%					
Esports - Gross Profit Margin	N/A	65.4%					
Total Gross Profit Margin	50.9%	50.7%					

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Consolidated gross profit was \$0.9 million and \$1.2 million \$0.6 million for 2023 and 2022, respectively, a decrease an increase of \$0.3 million \$0.2 million, when compared to the prior period. Gross profit margin was 50.2% 50.9% in 2023, compared to 57.4% 50.7% in 2022, a decrease of 720 where the decreases in both gross profit and gross profit margin were point increase was driven primarily by lower higher gaming revenues, which did not lead to a decrease in cost of revenues due to certain minimum royalty guarantees. revenues. Gaming segment gross profit was \$0.9 million for 2023, compared to \$1.1 million \$0.5 million for 2022, representing a gross profit margin of 50.2% 50.9% 57.7% 48.2% for 2022. The decrease increase in our Gaming segment gross profit of \$0.2 million \$0.4 million, and corresponding decrease increase in gross were primarily due to lower higher gaming revenues as discussed above.

Esports segment was break even at the gross profit level was \$0 for 2023, compared to \$0.1 million for 2022, representing a \$0.03 million gross profit, or 47.5% margin for 2022, a decrease of \$0.03 million, or 102.6%, when compared to the prior year. The change in gross profit 0% for 2023 when compared to the prior year is primarily due to the timing of revenue and cost recognition as it relates to the 65.4% for 2022. As discussed above, there were no sponsorship revenues from the Virtual Series which held its final event in January 2023.

during the three months ended September 30, 2023.

Operating Expenses

	For the Three Months Ended June 30,				For the Three Months Ended September 30, 2023			
	2023		2022		Change		2023	
					\$	%	2022	\$
Operating Expenses:								
Sales and marketing	\$ 434,788	\$ 1,540,220	\$ (1,105,432)		(71.8)%	\$ 358,120	\$ 1,440,659	\$ (1,082,539)
Development	1,787,768	2,681,643	(893,875)		(33.3)%	1,566,839	2,631,066	(1,064,227)
General and administrative	3,154,233	3,349,609	(195,376)		(5.8)%	1,526,614	4,008,335	(2,481,721)
Impairment of intangible assets	4,004,627	149,048	3,855,579		2,586.8%			
Depreciation and amortization	104,854	117,725	(12,871)		(10.9)%	75,614	92,703	(17,089)
Total Operating Expenses	\$ 9,486,270	\$ 7,838,245	\$ 1,648,025		21.0%	\$ 3,527,187	\$ 8,172,763	\$ (4,645,576)

Changes in operating expenses are explained in more detail below:

Sales and Marketing

Sales and marketing expenses were \$0.4 million and \$1.5 million for 2023 and 2022, respectively, representing a \$1.1 million \$1.0 million, or 73.3% decrease when compared to the prior period. The reduction in sales and marketing expense was primarily driven by a \$0.6 million reduction in external hosting fees, as well as a \$0.5 million \$0.4 million reduction in payroll and employee related expenses as a result of lower headcount when compared to the prior period.

Development

Development expenses were \$1.8 million \$1.6 million and \$2.7 million \$2.6 million for 2023 and 2022, respectively, representing a \$0.9 million \$1.1 million, or 21.4% decrease when compared to the prior period. The reduction in development expense was primarily driven by a \$0.7 million \$0.6 million reduction in payroll and employee related expenses, as well as a \$0.2 million \$0.5 million reduction in external development expense driven by a reduction in headcount when compared to the prior period, partially offset by a \$0.1 million increase in hosting fees incurred to support our ongoing development efforts.

General and Administrative

General and administrative ("G&A") expenses were \$3.2 million \$1.5 million and \$3.3 million \$4.0 million for 2023 and 2022, respectively, a decrease of \$0.7 million, or 5.8% 61.9%, when compared to the prior period. The reduction in G&A expense was primarily driven by a \$0.5 million \$1.2 million reduction in professional fees, due to the settlement of litigation in 2022 that did not repeat in 2023, a \$0.3 million \$0.5 million reduction in payroll and employee related expenses, as well as a \$0.2 million \$0.2 million reduction in stock-based compensation expense, both driven by the departure of the Company's former Chief Executive Officer, partially offset by a \$0.6 million increase in severance costs.

Impairment of Intangible Assets

Impairment of indefinite-lived intangible assets was \$0 and \$0.1 million in 2023 and 2022, respectively. The triggers for the assessments in 2022 were the Company's product roadmap and the Company's market capitalization, resulting in a \$0.1 million impairment loss relating primarily to the rFactor 2 trade name Video Gaming License.

Impairment of finite-lived intangible assets was \$4.0 million and \$0 in 2023 and 2022, respectively. The trigger for the impairment in 2023 was the Company's inability to comply with the terms of a licensing agreement by the end of the year and the resulting reduction in expected future revenues.

Depreciation and Amortization

Depreciation and amortization expenses for 2023 and 2022 presented no significant changes to the depreciation of capital assets.

Interest Expense

Interest expense was \$0.2 million for both 2023 and 2022 presented no significant changes, remaining flat at \$0.2 million respectively. Interest expense consists of ongoing non-cash interest accretion of our INDYCAR and BTCC license liabilities.

Other Income (Expense), Expense, net

Other income, expense, net for 2023 was \$0.7 million \$0.6 million, compared to other expense, net of \$0.6 million \$0.7 million for 2022, an improvement of \$1.3 million. Other income, net for 2023 primarily consisted of foreign currency gains of \$0.2 million and \$0.4 million gain from a change in fair value of stock warrants compared to other expenses, net for 2022 that primarily consisted of foreign currency losses of \$0.65 million \$0.1 million. The change in other income (expense) net between 2023 and 2022 is primarily due to favorable swings in foreign currency gains and losses period over period, arising from remeasurement of assets denominated in a currency other than U.S. dollars, as well as the change in the fair value of the Company's stock warrants liabilities. dollars.

Other Comprehensive (Loss) Income

Other comprehensive loss income was \$0.2 million \$0.5 million for 2023, compared to other comprehensive income of \$0.1 million \$0.2 million for 2022. The change in other comprehensive (loss) income was primarily due to activity in our U.K., Australian, Georgian and Netherlands subsidiaries and represents unrealized gains and losses on foreign currency translation adjustments.

Net Loss Attributable to Non-Controlling Interest

The loss attributable to non-controlling interest decreased increased by \$0.05 million \$0.02 million to a loss of \$0.03 million \$0.04 million in 2023 as compared to \$0.08 million for 2022. The improvement \$0.02 million in 2022, which was attributed to the reduction increase of net losses in Le Mans Esports Series Ltd (the "Venture").

Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

Six Months Ended June 30, 2023 compared to Six Months Ended June 30, 2022

In this section, references to 2023 refer to the six nine months ended June 30, 2023 September 30, 2023 and references to 2022 refer to the six nine months ended September 30, 2022.

Revenue

	For the Six Months Ended June 30,				For the Nine Months Ended		
			Change		September 30,	2023	2022
	2023	2022	\$	%			
Revenues:							
Gaming	\$ 3,178,313	\$ 4,900,326	\$ (1,722,013)	(35.1)%	\$ 4,872,184	\$ 5,943,178	\$ (1,070,000)
Esports	290,172	430,450	(140,278)	(32.6)%	290,172	610,740	(320,568)
Total Revenues	\$ 3,468,485	\$ 5,330,776	\$ (1,862,291)	(34.9)%	\$ 5,162,356	\$ 6,553,918	\$ (1,391,562)

Consolidated revenues were \$3.5 million \$5.2 million and \$5.3 million \$6.6 million for 2023 and 2022, respectively, a decrease of \$1.9 million \$1.4 million, when compared to the prior period.

Gaming segment revenues represented 91.6% 94.4% and 91.9% 90.7% of our total 2023 and 2022 revenues, respectively, decreasing by \$1.7 million 35.1% 18%, when compared to the prior period. The decrease in Gaming segment revenues was primarily due to \$1.3 million a \$0.6 million decrease in mobile game sales and a \$0.7 million decrease in lower retail sales, both of which were primarily driven by lower volumes of sales as well as and less favorable change in digital and mobile game sales was primarily driven by a \$1.0 million \$0.4 million reduction in NASCAR title sales on PC, consoles and mobile platforms. \$0.2 million decrease in rFactor 2 and KartKraft title sales on PC, respectively. PC. The reduction in retail game sales of \$0.7 million was due to sales of our NASCAR titles in 2023 when compared to the same period in 2022.

In addition to the decreases decrease in revenue generated by game sales, revenue earned through the development of simulation platforms for third-party clients was \$0.1 million lower in 2023 compared to 2022. The lower period over period revenues were partially offset by a \$0.8 million reduction in sales allowances received when compared to 2022.

Esports segment revenues represented 8.4% 5.6% and 8.1% 9.3% of our total 2023 and 2022 revenues, respectively, decreasing by \$0.1 million \$0.3 million, when compared to the prior period. The decrease change in Esports segment revenue was primarily due to \$0.3 million lower sponsorship revenue from our Virtual Series, which completed its during 2023 due to the timing of the commencement of the 2023-24 season compared to the 2022-23 season, in Japan, discussed above.

Cost of Revenues

	For the Nine Months Ended September 30,					
	For the Six Months Ended June 30,		Change			
	2023	2022	\$	%	2023	2022
Cost of Revenues:						
Gaming	\$ 1,740,148	\$ 2,224,744	\$ (484,596)	(21.8)%	\$ 2,571,627	\$ 2,765,263
Esports	374,755	645,219	(270,464)	(41.9)%	374,755	707,556
Total Cost of Revenues	\$ 2,114,903	\$ 2,869,963	\$ (755,060)	(26.3)%	\$ 2,946,382	\$ 3,472,819

Consolidated cost of revenues were \$2.1 million \$2.9 million and \$2.9 million \$3.5 million for 2023 and 2022, respectively, a decrease of \$0.8 million 26.3% 15.2%, when compared to the prior period.

Gaming segment cost of revenues represented 82.3% 87.3% and 77.5% 79.6% of our total 2023 and 2022 cost of revenues, respectively, decreasing by \$ million, or 21.8% 7.0%, when compared to the prior period. The decrease in Gaming segment cost of revenues was primarily driven by a \$0.3 million reduction in production costs a \$0.2 million reduction in royalty payments and a \$0.1 million reduction in development costs incurred to develop a simulation platform party. The decrease in production costs was due to no new physical inventory production in 2023, compared to additional units of NASCAR 21: Ignition beginning in 2022, and the reduction in royalty payments development costs was driven by the decrease in digital and retail game sales. These reductions were partially offset by an increase in license fees of \$0.1 million \$0.2 million.

Esports segment cost of revenues represented 17.7% 12.7% and 22.5% 20.4% of our total 2023 and 2022 cost of revenues, respectively, decreasing by 41.9% 47.0%, when compared to the prior period. The decrease in Esports segment cost of revenues was primarily driven by \$0.3 million of lower studio production costs associated with the final round of the Le Mans Virtual Series event for during 2023 due to the timing of the commencement of the 2022-23 season, as discussed above.

Gross Profit

	For the Six Months Ended June 30,				Change		For the Nine Months Ended September 30,		
	2023		2022		\$	%	2023	2022	\$
	Gross Profit (Loss):								
Gross Profit:									
Gaming	\$ 1,438,165	\$ 2,675,582	\$ (1,237,417)	(46.2)%	\$ 2,300,557	\$ 3,177,915	\$ (877,358)	\$ 2,215,974	\$ 3,081,099
Esports	(84,583)	(214,769)	130,186	(60.6)%	(84,583)	(96,816)	12.3%	(84,583)	(96,816)
Total Gross Profit (Loss)	\$ 1,353,582	\$ 2,460,813	\$ (1,107,231)	(45.0)%					
Total Gross Profit									

Gaming – Gross Profit Margin	45.2%	54.6%	47
Esports – Gross Profit Margin	(29.1)%	(49.9)%	(29.
Total Gross Profit Margin	39.0%	46.2%	42

Consolidated gross profit was \$1.4 million \$2.2 million and \$2.5 million \$3.1 million for 2023 and 2022, respectively, a decrease of \$1.1 million \$0.9 million, when compared to the prior period. Gross profit margin was 39.0% 42.9% in 2023, compared to 46.2% 47.0% in 2022, where the basis point decrease was primarily due to lower gaming revenues combined with certain fixed expenses, such as discussed above. the minimum annual royalty guarantees, as well as amortization of developed technology in the Gaming segment.

Gaming segment gross profit was \$1.4 million \$2.3 million for 2023, compared to \$2.7 million \$3.2 million for 2022, representing a gross profit margin of 45.2% 53.5% for 2023 and 54.6% 53.5% for 2022. The decrease in our Gaming segment gross profit of \$1.2 million \$0.9 million, and corresponding decrease in gross profit, was primarily due to lower gaming revenues combined with certain fixed expenses as discussed above.

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Esports segment gross loss was \$0.1 million for both 2023 compared to \$0.2 million for 2022, representing a negative gross profit margin of 29.1% and 2023 and 2022, respectively. This improvement erosion in our the Esports segment gross loss of \$0.1 million, and corresponding improvement in negative margin was primarily due to lower production costs associated with the final round of revenues from the Le Mans Virtual Series, event for 2023 company explained above.

Operating Expenses

	For the Six Months Ended June 30,				For the Nine Months Ended September 30,		
	2023		2022		Change		Ch
					\$	%	
Operating Expenses:							
Sales and marketing	\$ 1,053,198	\$ 3,228,669	\$ (2,175,471)	(67.4)%	\$ 1,411,318	\$ 4,669,328	\$ (3,258,010)
Development	4,184,902	5,085,980	(901,078)	(17.7)%	5,751,741	7,717,046	(1,965,305)
General and administrative	5,933,343	6,772,763	(839,420)	(12.4)%	7,459,957	10,781,098	(3,321,141)
Impairment of goodwill	-	4,788,268	(4,788,268)	(100.0)%	-	4,788,268	(4,788,268)
Impairment of intangible assets	4,004,627	4,640,102	(635,475)	(13.7)%	4,004,627	4,640,102	(635,475)
Depreciation and amortization	202,208	233,796	(31,588)	(13.5)%	277,822	326,499	(48,677)
Total Operating Expenses	\$ 15,378,278	\$ 24,749,578	\$ (9,371,300)	(37.9)%	\$ 18,905,465	\$ 32,922,341	\$ (14,016,876)

Changes in operating expenses are explained in more detail below:

Sales and Marketing

Sales and marketing expenses were \$1.1 million \$1.4 million and \$3.2 million \$4.7 million for 2023 and 2022, respectively, representing a \$2.2 million 67.4% 69.8% decrease when compared to the prior period. The reduction in sales and marketing expense was primarily driven by a \$1.4 million \$2.1 million external marketing expense, as well as a \$0.8 million \$1.2 million reduction in payroll and employee related expenses as a result of lower headcount when compared to the prior period.

Development

Development expenses were \$4.2 million \$5.8 million and \$5.1 million \$7.7 million for 2023 and 2022, respectively, representing a \$0.9 million \$2.0 million, decrease when compared to the prior period. The reduction in development expense was primarily driven by a \$1.1 million \$1.7 million reduction in payroll related expenses expense as a result of lower headcount when compared to the prior period and a \$0.5 million decrease in development consulting expense offset by a \$0.2 million increase in software and hosting fees incurred to support our ongoing development efforts.

General and Administrative

G&A expenses were \$5.9 million \$7.5 million and \$6.8 million \$10.8 million for 2023 and 2022, respectively, a decrease of \$0.8 million \$3.3 million, or 12.2% compared to the prior period. The reduction in G&A expense was primarily driven by a \$0.4 million \$1.6 million reduction in legal and professional costs, in party back office support costs, primarily due to the settlement of litigation in 2022 that did not repeat in 2023, a \$0.5 million \$1.2 million reduction in payroll related expenses, including travel expenses, due to lower headcount period over period, a \$0.4 million \$0.7 million reduction in insurance costs and a \$0.2 million in software and subscription costs. This was partially offset by a \$0.6 million increase in severance costs, driven by the departure of the Company's former Officer in 2023.

Impairment of Goodwill

Impairment of goodwill was \$0 and \$4.8 million in 2023 and 2022, respectively. The impairment loss for 2022 primarily relates to goodwill acquired with the acquisition of Studio397 that was deemed impaired as a result of impairment assessments performed during the year 2022. The triggers for the assessment primarily revisions made in during the first quarter of 2022 three months ended March 31, 2022 to the scope and timing of certain product releases including the Company's product roadmap, as well as a significant reduction in the Company's market capitalization since the date of the last annual impairment assessment. The forecasted revenues and discount rates, as a result of the triggers identified, were the primary drivers for the change in fair value since the annual assessment.

Impairment of Intangible Assets

Impairment of indefinite-lived intangible assets was \$0 and \$3.3 million in 2023 and 2022, respectively. The triggers for the assessments in 2022 were the Company's product roadmap and the Company's market capitalization, as referenced above. The indefinite-lived intangible asset impairment losses relate to the rFactor 2 trade name and the Le Mans Video Gaming License and are mainly driven by a reduction in expected future revenues following the Company's product roadmap in during the first quarter of 2022, three months ended March 31, 2022, as well as changes to the discount rates used when valuing the assets.

Impairment of finite-lived intangible assets was \$4.0 million and \$1.3 million in 2023 and 2022, respectively. The trigger for the impairment in 2023 was the Company's decision to explore strategic alternatives and potential options for its business, resulting in a probable likelihood of the sale of certain licensing rights that the Company's inability to comply with the terms of a licensing agreement by the end of the year and the resulting reduction in expected future revenues. The impairment in 2022 were the changes to the Company's product roadmap and the Company's market capitalization, as referenced above. The finite-asset impairment losses relate in 2022 to the rFactor 2 technology and was primarily driven by a change in the technical obsolescence assumption determining the fair value of the asset.

Depreciation and Amortization

Depreciation and amortization expenses for 2023 and 2022 presented no significant changes to the depreciation of capital assets.

Interest Expense

Interest expense was \$0.4 million \$0.7 and \$0.6 million for both 2023 and 2022, respectively, primarily from ongoing non-cash interest accretion of our IND license liabilities, as well as interest expense relating to deferred purchase consideration in respect of our acquisition of Studio 397.

Other Income (Expense) Income, net

Other income, net for 2023 was \$1.0 million \$0.4 million, compared to other expense, net of \$0.8 million \$1.5 million for 2022, an improvement of \$1.8 million compared to the prior period. Other income, net for 2023 consisted of foreign currency gains of \$0.4 million, \$0.4 million in gains from changes in the fair value of warrant liabilities, rental income of \$0.1 million, and \$0.1 million of gains derived from relief provided by certain vendors, compared to other expense, net for 2022, which consisted of foreign currency losses of \$0.9 million and rental income of \$0.1 million. The change improvement in other income (expense) income, net was primarily driven by the \$1.2 million favorable swing a \$1.4 million reduction in foreign currency gains and losses, period over period, arising from remeasuring transactions denominated in a currency other than U.S. dollars, and dollars, a \$0.4 million gain in gains from the changes in fair value of liability settled stock warrant liabilities. warrant liabilities, a \$0.4 million increase in rental and other income.

Other Comprehensive (Loss) Income

Other comprehensive loss was \$0.3 million for 2023, compared to other comprehensive income of \$0.01 million for 2022. The \$0.3 million change in other (loss) income was primarily due to unrealized foreign currency translation adjustments arising from our activity in our U.K., Australian, Georgian and subsidiaries. presented no significant changes

Net Loss Attributable to Non-Controlling Interest

For 2023, the loss attributable to the non-controlling interest decreased by \$0.7 million to a loss of \$0.2 million as compared to a loss of \$0.9 million. improvement was attributed to the reduction of net losses in the Le Mans Joint Venture.

Liquidity and Capital Resources

Liquidity

Since our inception and prior to our initial public offering ("IPO"), we financed our operations primarily through advances from Motorsport Network, which were subsequently incorporated into a line of credit provided by Motorsport Network Driven Lifestyle pursuant to the \$12 million Line of Credit, as detailed in Note 10.

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On January 15, 2021, we completed our IPO of 345,000 shares of Class A common stock at a price to the public of \$200 per share, which includes the exercise of the underwriters of their option to purchase from us an additional 45,000 shares of Class A common stock. We received net proceeds of approximately \$63.1 million from the IPO, after deducting underwriting discounts and offering expenses paid by us in 2020 and 2021.

Following our IPO, we have financed our operations primarily through cash generated from operations, advances from Motorsport Network Driven LifeStyle, the \$12 million Line of Credit and through sales of our equity securities.

We measure our liquidity in a number of ways, including the following:

Liquidity Measure (in millions)	June 30, 2023	December 31, 2022	September 30, 2023
Cash and cash equivalents	\$ 2.0	\$ 1.0	\$ 1.2
Working capital	\$ (2.6)	\$ (9.3)	\$ (5.1)

For the six nine months ended June 30, 2023 September 30, 2023, the Company had a net loss of approximately \$13.5 million, \$17.0 million and negative cash operations of approximately \$8.9 million and \$10.1 million. As of September 30, 2023, we had an accumulated deficit of \$87.3 million. As of June 30, 2023, \$1.2 million and cash and cash equivalents of \$2.0 million \$1.2 million, which was reduced increased to \$1.4 million \$3.2 million as of July 31, 2023 October 31, 2023 in cash and cash equivalents was driven by the sale of the Company's NASCAR License to iRacing on October 3, 2023. See Note 12 - Subsequent Events in the consolidated financial statements in this Report for additional details.

For the three months ended June 30, 2023 September 30, 2023, we experienced an average net cash burn from operations of approximately \$1.1 million per month, and while it has taken measures to reduce its costs, the Company expects to continue to have a net cash outflow from operations for the foreseeable future. The Company continues to develop its product portfolio and invest in developing new video game titles. Based on the Company's cash and cash equivalents position and average cash burn, we do not believe we have sufficient cash on hand to fund our operations for over the remainder of 2023 next year and that additional capital will be required in order to continue operations.

The Company's future liquidity and capital requirements include funds to support the planned costs to operate its business, including amounts required to maintain its capital, support the development and introduction of new products, maintain existing titles, and certain capital expenditures.

In order to address its liquidity shortfall, the Company is actively exploring continues to explore several options, including, but not limited to: i) additional form of potential equity and/or debt financing arrangements or similar transactions (collectively, "Capital Financing"); ii) other strategic alternatives for the Company, including, but not limited to, the sale or licensing of the Company's assets; assets in addition to its recent sale of its NASCAR License; and iii) cost restructuring initiatives, including re-evaluating its product roadmap, each of which is described more fully below.

The Company continues to explore additional funding in the form of potential Capital Financing and has entered into an Equity Distribution Agreement ("ED Agreement") with Canaccord Genuity LLC, as sales agent (the "Sales Agent"), pursuant to which the Company may issue and sell shares of its Class A common stock, at an aggregate offering price of up to \$10 million (subject to compliance with the limitations set forth in the SEC's "baby shelf" rules). Subject to the terms and conditions of the ED Agreement, the Sales Agent may sell shares by any method deemed to be an "at-the-market" ("ATM") offering as defined in Rule 415 under the Securities Act of 1933, as amended. As of **June 30, 2023** **September 30, 2023**, the Company had an aggregate of \$2.9 million available for future sales under its ATM program. Given the Company's present liquidity position and required future funding requirements, any funds raised via the ATM program would not be sufficient to satisfy the Company's liquidity requirements and further potential Capital Financing would be required, in conjunction to the other options being explored by the Company. Further, there can be no assurance the Company will be able to obtain funds via the ATM program, should it choose to sell shares under the ED Agreement, nor can there be any assurance that the Company can secure additional funding in the form of equity and/or debt financing on commercially acceptable terms, if at all, to satisfy the Company's needed liquidity and capital resources.

Due to the continuing uncertainty surrounding the Company's ability to raise funding in the form of potential Capital Financing, and in light of its liquid anticipated future funding requirements, the Company has decided continues to explore other strategic alternatives and potential options for its business: not limited to, the sale or licensing of certain of the Company's assets. For example, the Company is currently assets in discussions with a third potential addition to its recent sale of the Company's NASCAR license. License. If any such additional strategic alternative is executed, including the consummation of the Company's NASCAR license, it is expected it would help to reduce certain improve the Company's working capital requirements position and reduce expenditures, thereby reducing lowering the Company's expected future cash-burn, and provide some short-term liquidity relief. Nonetheless, even if the Company is successful in implementing one or more additional strategic alternatives, including the consummation of a sale of the Company's NASCAR license, the Company will continue to require additional funding and/or further cost reduction measures in order to continue operations, which includes further restructuring of its operations. There are no assurances that the Company will even be successful in implementing any additional strategic plan plans for the sale or licensing of the Company's NASCAR license, or any other strategic alternative, which may be subject to the satisfaction of conditions controlled by the Company's control, such as, among other things, the required consent from NASCAR with respect to any sale of the Company's NASCAR license. control.

As part of its ongoing liquidity management efforts, the Company continues to address its liquidity constraints, it has re-evaluated evaluated its product second quarter of 2023 and modified determined that changes to the expected timing and scope of certain new product releases including the release of NASCAR games, which have been put on hold indefinitely. Further, is required. Specifically, the Company has determined that its upcoming Le Mans Ultima date will be moved from December 2023 to an anticipated February 2024 release date. In addition, following the Company's decision on October 29, 2022, restructuring of its operations that primarily resulted in the closure of its Australian development studio, as well as the reduction of headcount in the United Company determined it was necessary to suspend the development of its previously planned INDYCAR title until such time it is evaluating its ability additional funding and capable resources to be able to deliver new titles under a high-quality INDYCAR video game title. Refer to Note 12 – *Subsequent Events* details regarding the restructuring.

As the Company continues to address its other licenses, such as with INDYCAR and liquidity constraints, the British Touring Car Championship which Company may result in need to make further adjustments to the Company's its product roadmap. The roadmap in order to reduce operat Additionally, the Company continues to seek to reduceimprove its monthly net cash-burn by reducing its cost base liquidity through maintaining and control initiatives, such as those that it expects to achieve through the its previously announced 2022 Restructuring Program, and is as well as the closure development studio. The Company plans to continue evaluating the structure of its business for additional changes in order to improve both its near-term liquidity position, as well as create a healthy and sustainable Company from which to operate.

If the Company is unable to satisfy its capital requirements, it could be required to adopt one or more of the following alternatives:

- delaying the implementation of or revising certain aspects of the Company's business strategy;
- further reducing or delaying the development and launch of new products and events;
- further reducing or delaying capital spending, product development spending and marketing and promotional spending;
- selling additional assets or operations;
- seeking additional capital contributions and/or loans from Motorsport Network, Driven Lifestyle, the Company's other affiliates and/or third parties;
- further reducing other discretionary spending;
- entering into financing agreements on unattractive terms; and/or
- significantly curtailing or discontinuing operations.

There can be no assurance that the Company would be able to take any of the actions referred to above because of a variety of commercial or market factors, without limitation, market conditions being unfavorable for an equity or debt issuance or similar transactions, additional capital contributions and/or funds available from Motorsport Network Driven Lifestyle or affiliates and/or third parties, or that the transactions may not be permitted under the terms of various debt instruments then in effect, such as due to restrictions on the incurrence of debt, incurrence of liens, asset dispositions and related party transactions; addition, such actions, if taken, may not enable the Company to satisfy its capital requirements if the actions that the Company is able to consummate do not result in a sufficient amount of additional capital.

Even if the Company does secure additional Capital Financing, if the anticipated level of revenues are not achieved because of, for example, decreases in the Company's products due to the disposition of key assets, such as the potential sale of its NASCAR license, [License](#), further changes in the Company's products and/or the Company's inability to deliver new products for its various other licenses; less than anticipated consumer acceptance of the Company's offer and events; less than effective marketing and promotion campaigns, decreased consumer spending in response to weak economic conditions or weakness in the electronic games category; adverse changes in foreign currency exchange rates; decreased sales of the Company's products and events as a result of increased activities by the Company's competitors; changes in consumer purchasing habits, such as the impact of higher energy prices on consumer purchasing behavior; inventory management or reductions in retailer display space; less than anticipated results from the Company's existing or new products or from its advertising, marketing plans; or if the Company's expenses, including, without limitation, for marketing, advertising and promotions, product returns or price protection, exceed the anticipated level of expenses, the Company's liquidity position may continue to be insufficient to satisfy its future capital requirements. If the Company is ultimately unable to satisfy its capital requirements, it would likely need to dissolve and liquidate its assets under the bankruptcy laws or otherwise.

In accordance with Accounting Standards Codification ("ASC") 205-40, *Going Concern*, the Company has evaluated whether there are conditions and events, the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the accompanying financial statements to this Report are issued. The factors described above, in particular the available cash on hand to fund operations over the next year, raise substantial doubt about the Company's ability to continue as a going concern.

The accompanying condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the assets and satisfaction of liabilities and commitments in the ordinary course of business.

Cash Flows from Operating Activities

Net cash used in operating activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$8.9 million** **\$10.1 million** and **\$12.0 million** respectively. The net cash used in operating activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was primarily a result of cash used to **\$13.5 million** **\$17.0 million**, adjusted for net non-cash adjustments of **\$6.0 million** and **\$1.4 million** of cash used by changes in the levels of operating liabilities, **\$6.9 million**. Net cash used in operating activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was primarily due to a net cash used of **\$32.0 million**, adjusted for non-cash expenses in the amount of **\$12.4 million** **\$13.9 million** and by **\$1.0 million** **\$1.2 million** of cash used to fund changes in operating assets and liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$0.02 million** **\$0.03 million** and **\$0.2 million** respectively, which was attributable to the purchases of property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities during the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was **\$10.2 million** while net cash used in financing activities during the six months ended **June 30, 2022** was **\$1.0 million**, **\$10.1 million** and **\$1.1 million**, respectively. Cash flows provided by financing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** were primarily attributable to **\$0.6 million** raised in connection with shares sold under the Alumni Purchase Agreement (as defined below) and **\$10.4 million** raised in connection with shares sold in the Company's registered direct offerings, partially offset by **\$0.6 million** **\$0.7 million** for purchase commitments and **\$0.3 million** for payments relating to license liabilities. During the **six** **nine** months ended **June 30, 2022** **September 30, 2022** net cash provided by financing activities was **\$1.0 million**, driven primarily by **\$1.0 million** **\$3.0 million** in repayments advances from Driven Lifestyle under the **\$12.5 million** Credit in September 2022, partially offset by **\$1.5 million** in payments of purchase commitment liabilities. **liability relating to a portion of the deferred instalments** due in connection with our acquisition of Studio397 and **\$0.3 million** in game license payments.

Promissory Note Line of Credit

On April 1, 2020, the Company entered into a promissory note (the “\$12 million Line of Credit”) with the Company’s majority stockholder, Motorsport Network’s Driven Lifestyle, that provides the Company with a line of credit of up to \$10 million at an interest rate of 10% per annum, the availability of which is limited by the \$12 million Line of Credit, effective in 2020, pursuant to which the availability under the \$12 million Line of Credit was increased from \$10 million to \$12 million. The \$12 million Line of Credit does not have a stated maturity date and is payable upon demand at any time at the sole discretion of Motorsport Network, Driven Lifestyle, and any principal and accrued interest owed will be accelerated and become immediately payable if the Company consummates certain corporate events, such as a capital reorganization. The Company may prepay the \$12 million Line of Credit in whole or in part from time to time without penalty or charge. Additionally, see “Risk Factors – Risks Related to Our Financial Condition and Liquidity - Limits on our borrowing under the \$12 million Line of Credit may affect our ability to finance our operations” in Part I, Item 1A of the 2022 Form 10-K.

On September 8, 2022, the Company entered into a support agreement with Motorsport Network Driven Lifestyle (the "Support Agreement") pursuant to which Motorsport Network Driven Lifestyle issued approximately \$3 million (the "September 2022 Cash Advance") to the Company in accordance with the \$12 million Line of Credit. Additionally, the Support Agreement modified the \$12 million Line of Credit such that, among other things, until June 30, 2024, Motorsport Network Driven Lifestyle would not demand repayment of the September 2022 Cash Advance or other advances under the \$12 million Line of Credit, unless certain events occurred in the Support Agreement, such as the completion of a new financing arrangement or the Company generates positive cash flows from operations, at which time principal and accrued interest owed on the \$12 million Line of Credit were exchanged for equity following the completion of two debt-for-equity exchanges with Motorsport Network Driven Lifestyle on January 30, 2023 and February 1, 2023, relieving the Company of approximately \$3.9 million in owed principal and accrued interest in exchange for an aggregate of 780,385 shares of the Company's Class A common stock. See Note 5 – *Related Party Loans* in our condensed consolidated financial statements in this Report for further information. As of **June 30, 2023** **September 30, 2023**, the balance due to Motorsport Network Driven Lifestyle under the \$12 million Line of Credit was \$0.

As of **June 30, 2023** **September 30, 2023**, the \$12 million Line of Credit remains in place. However, the Company believes that there is a substantial risk that Motorsport Network Driven Lifestyle will not fulfill any future borrowing requests, and therefore does not view the \$12 million Line of Credit as a viable source of liquidity needs.

Other Financing Activity

On December 9, 2022, the Company entered into a stock purchase commitment agreement (the "Alumni Purchase Agreement") with Alumni Capital LP ("Alumni Capital") which provides that the Company may sell to Alumni Capital up to \$2,000,000 of shares (the "commitment amount") of the Company's Class A common stock over a commitment period expiring on December 31, 2023, or earlier if the commitment amount is reached. Furthermore, the Company has an option to increase the commitment amount up to \$10,000,000 of shares of the Company's Class A common stock, subject to certain terms and conditions. During the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, the Company issued an aggregate of 175,167 shares of the Company's Class A common stock to Alumni Capital under the Alumni Purchase Agreement with an aggregate fair market value of approximately \$0.65 million. As of **June 30, 2023** **September 30, 2023**, the remaining commitment amount available under the Alumni Purchase Agreement amounted to approximately \$1.3 million.

On February 1, 2023, the Company issued 183,020 shares of the Company's Class A common stock in a registered direct offering priced at-market under with a fair market value of approximately \$3.9 million (the "\$3.9 million RDO"), before deducting placement agent fees and other offering expenses Company. H.C. Wainwright & Co., LLC ("Wainwright") acted as the exclusive placement agent for the \$3.9 million RDO, pursuant to the engagement Company, dated as of January 9, 2023. In connection with the \$3.9 million RDO, the Company paid Wainwright a cash transaction fee equal to 7.0% of the ; proceeds from the registered direct offering, non-accountable expenses of \$50,000 and closing fees of \$15,950. The Company has also issued to Wainwright purchase up to 10,981 shares of Class A Common Stock, which is equal to 6.0% of the aggregate number of shares of Class A Common Stock placed in the \$; at an exercise price of \$26.75 per share and will expire five years from the closing of the \$3.9 million RDO.

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On February 2, 2023, the Company issued 144,366 shares of the Company's Class A common stock in a registered direct offering priced at-market under with a fair market value of approximately \$3.4 million (the "\$3.4 million RDO"), before deducting placement agent fees and other offering expenses Company. Wainwright acted as the exclusive placement agent for the \$3.4 million RDO. In connection with the \$3.4 million RDO, the Company paid Wa transaction fee equal to 7.0% of the aggregate gross proceeds from the registered direct offering, non-accountable expenses of \$25,000 and closing fees Company has also issued to Wainwright warrants to purchase up to 8,662 shares of Class A Common Stock, which is equal to 6.0% of the aggregate numl Class A Common Stock placed in the \$3.4 million RDO, at an exercise price of \$29.375 per share and will expire five years from the closing of the \$3.4 million F

On February 3, 2023, the Company issued 232,188 shares of the Company's Class A common stock in a registered direct offering priced at-market under with a fair market value of approximately \$4.0 million (the "\$4.0 million RDO"), before deducting placement agent fees and other offering expenses Company. Wainwright acted as the exclusive placement agent for the \$4.0 million RDO. In connection with the \$4.0 million RDO, the Company paid Wa transaction fee equal to 7.0% of the aggregate gross proceeds from the registered direct offering, non-accountable expenses of \$25,000 and closing fees Company has also issued to Wainwright and its designees warrants to purchase up to 13,931 shares of Class A Common Stock, which is equal to 6.0% o number of shares of Class A Common Stock placed in the \$4.0 million RDO, at an exercise price of \$21.738 per share and will expire five years from the clo million RDO.

On March 31, 2023, the Company entered into the ED Agreement with the Sales Agent, pursuant to which the Company may issue and sell shares of its C stock having an aggregate offering price of up to \$10 million (subject to compliance with the limitations set forth in the SEC's "baby shelf" rules), from time t the Sales Agent. Subject to the terms and conditions of the ED Agreement, the Sales Agent may sell shares by any method deemed to be an "at-the-mar defined in Rule 415 under the Securities Act of 1933, as amended. The Company is not obligated to sell any shares under the ED Agreement. The Sales Agen commission of 3% of the aggregate gross proceeds from each sale of shares occurring pursuant to the ED Agreement. During the ~~six~~ nine months ~~2023~~ September 30, 2023, no shares of Class A common stock were sold under the Company's ATM program. As of ~~June 30, 2023~~ September 30, 2023, the Co aggregate of \$2.9 million available for future sales under its ATM program.

Capital Expenditures

The nature of the Company's operations does not require significant expenditure on capital assets, nor does the Company typically enter into significant co acquire capital assets. The Company does not have material commitments to acquire capital assets as of ~~June 30, 2023~~ September 30, 2023.

Material Cash Requirements

As a result of the sale of our NASCAR License on October 3, 2023 (See Note 12 - *Subsequent Events* in our condensed consolidated financial statement minimum royalty guarantee commitments pertaining to the NASCAR License will reduce by an aggregate of \$6.3 million from that previously disclosed in 10-K.

There

Other than as described in Note 9 - *Commitments and Contingencies* in our condensed consolidated financial statements in this Report and as discussed ab been no material changes in our reported material cash requirements as described under "Liquidity and Capital Resources - Material Cash Re "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the 2022 Form 10-K.

Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any relationships with any organizations or financial partnerships, such as finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contracts for limited purposes.

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Critical Accounting Policies and Estimates

There have been no material changes to the items disclosed as critical accounting policies and estimates under "Liquidity and Capital Resources—Critical Accounting Policies and Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the 2022 Form 10-K.

Recently Issued Accounting Standards

As an "emerging growth company", the JOBS Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such time as we are no longer considered to be an emerging growth company.

Our analysis of recently issued accounting standards is more fully described in our condensed consolidated financial statements included elsewhere in this document.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of **June 30, 2023** **September 30, 2023**. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of **June 30, 2023** **September 30, 2023** because of the material weakness in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) as discussed in Part II, Item 9A, "Controls and Procedures" of the 2022 Form 10-K, that continued to exist as of **June 30, 2023** **September 30, 2023**, as well as a newly identified an additional material weakness identified during the quarter ended June 30, 2023, as discussed in Part I, Item 4, "Controls and Procedures" of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, that also exist.

Remediation of Material Weaknesses

We have not yet remediated the material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. As described in Part II, Item 9A, "Controls and Procedures" of the 2022 Form 10-K, we did not relating to our failure to design and maintain the necessary monitoring procedures and controls to evaluate and monitor the effectiveness of our individual control activities. During activities, that were described in the 2022 Form 10-K. Additionally, during the quarter ended June 30, 2023, management identified a new material weakness in our internal control over financial reporting due to a lack of sufficient number of personnel with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely. **timely, which also has not yet been remediated.** If not remediated, or if we identify further material weaknesses in our internal controls, our failure to establish and maintain effective disclosure controls and procedures in our internal control over financial reporting could result in material misstatements in our consolidated financial statements and a failure to meet our financial obligations.

Remediation of the Material Weaknesses

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We believe that we have not yet remediated made and continue to make progress on the material weaknesses remediation plans described in our 2022 Form 10-K under "Material Weaknesses" above. Item 9A, "Controls and Procedures." During the quarter period ended **June 30, 2023** **September 30, 2023**, we continue to make improvements to controls and continued our evaluation and documentation of risks and key controls forming part of the significant business processes. We have performed an internal control over financial reporting risk assessment scoping, development of risk control matrices and identification of key transaction level and entities that require testing on an ongoing basis. Additionally, we expect to continue to hire **hired** additional finance and accounting employees with appropriate certification, education and training.

All other material weaknesses previously identified in Part II, Item 9A, "Controls and Procedures" of the 2022 Form 10-K have been remediated, as disclosed in the "Controls and Procedures" of our Quarterly Report on Form 10-Q for the period **quarter** ended March 31, 2023.

Limitations on the Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that an internal control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management must apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control over Financial Reporting

Except as described above, there were no other changes in our internal control over financial reporting identified in management's evaluation pursuant to Section 303A.15(d) and 15d-15(d) under the Exchange Act during the quarter ended **June 30, 2023** **September 30, 2023**, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of a proceeding in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, prospects, results of operations, financial condition or cash flows, except as otherwise disclosed in this Report. In light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the fine imposed and the level of the Company's income for that particular period. See Note 9 – *Commitments and Contingencies* in our condensed consolidated financial statements in this Report for additional information.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in "Risk Factors" in Part I, Item 1A of the 2022 Form 10-K and the risk factors described below, which could materially affect our business, financial condition or future results. The risks described in the 2022 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may adversely affect our business, financial condition or operating results.

Other than the following, there have been no significant changes to the risk factors set forth in the 2022 Form 10-K:

Risks Related to Our Financial Condition and Liquidity

We have incurred significant losses since our inception, and we expect to continue to incur losses for the foreseeable future. Accordingly, our financial condition raises substantial doubt regarding our ability to continue as a going concern.

We incurred a net loss of \$13.5 million, \$17.0 million and negative cash flows from operations of approximately \$8.9 million and \$10.1 million for the nine months ended June 30, 2023, September 30, 2023, and December 31, 2022, respectively. As of September 30, 2023, we had an accumulated deficit of \$87.3 million for the six months ended June 30, 2023. As of June 30, 2023, we had \$2.0 million in cash and cash equivalents and \$1.2 million in restricted cash, which was reduced to \$1.4 million as of July 31, 2023. As of October 31, 2023, we had \$3.2 million in cash and cash equivalents. The decrease in cash and cash equivalents was driven by the sale of the Company's NASCAR License to iRacing on October 3, 2023. For the three months ended June 30, 2023, we experienced an average net cash burn from operations of approximately \$1.1 million per month. We expect to continue to have a negative cash flow from operations for the foreseeable future as we continue to develop our product portfolio and invest in developing new video game titles.

As a result of our financial condition, management has concluded that there is substantial doubt in our ability to continue as a going concern. The independent registered public accountant on our financial statements as of and for the years ended December 31, 2022 and 2021 also includes explanatory information describing the existence of substantial doubt about our ability to continue as a going concern. See Note 1 – *Business Organization, Nature of Operations and Uncertainties* in our condensed consolidated financial statements and "—Liquidity and Capital Resources" in this Report for further information.

If we are unable to satisfy our capital requirements, we could be required to adopt one or more of the following alternatives:

- delaying the implementation of or revising certain aspects of our business strategy;
- further reducing or delaying the development and launch of new products and events;
- further reducing or delaying capital spending, product development spending and marketing and promotional spending;
- selling additional assets or operations;
- seeking additional capital contributions and/or loans from Motorsport Network, Driven Lifestyle, our other affiliates and/or third parties;
- further reducing other discretionary spending;
- entering into financing agreements on unattractive terms; and/or
- significantly curtailing or discontinuing operations.

There can be no assurance that we would be able to take any of the actions referred to above because of a variety of commercial or market factors, including limitation, market conditions being unfavorable for an equity or debt issuance or similar transactions, additional capital contributions and/or loans not from Motorsport Network Driven Lifestyle or affiliates and/or third parties, or that the transactions may not be permitted under the terms of our instruments then in effect, such as due to restrictions on the incurrence of debt, incurrence of liens, asset dispositions and related party transactions. If our actions, if taken, may not enable us to satisfy our capital requirements if the actions that we are able to consummate do not generate a sufficient amount of capital. If we are ultimately unable to satisfy our capital requirements, we would likely need to dissolve and liquidate our assets under the bankruptcy laws. ***We will require additional capital to meet our financial obligations, and this capital might not be available on acceptable terms or at all.***

We expect to continue to incur losses for the foreseeable future as we continue to incur significant expenses. Accordingly, as a result of our financial condition, we may need to engage in equity and/or debt financing arrangements or similar transactions (collectively, "Capital Financing") to secure additional funds to continue our business operations and to fund our obligations. There are currently no commitments in place for future financing and there can be no assurance that we will be able to obtain funds on commercially acceptable terms, if at all.

If we raise additional funds through future issuances of equity (including preferred stock) or convertible debt securities, our existing stockholders could suffer dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our Class A common stock, including limitation, in respect of the payment of dividends and the payment of liquidating distributions. Because our decision to issue debt or preferred securities in an offering, or to borrow money from lenders, will depend in part on market conditions and other factors beyond our control, we cannot predict or estimate the timing or nature of any such future offerings or borrowings. For example, financial market instability or disruptions to the banking system due to the events that have occurred in 2023 with respect to Silicon Valley Bank and Signature Bank, may adversely affect our ability to enter into financing arrangements and facilities, or our ability to access existing cash, cash equivalents and investments.

Holders of our Class A common stock will bear the risk of any such future offerings or borrowings. Further, any future debt financing could require us to agree to restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain capital and to pursue business opportunities, including potential acquisitions. Debt financing must be repaid regardless of whether we generate revenue from operations and may be secured by substantially all of our assets.

Even if we do secure additional Capital Financing, if the anticipated level of revenues are not achieved because of, for example, decreased sales of our products or disposition of key assets, such as the potential sale of our NASCAR license, further changes in our product roadmap and/or our inability to deliver for our various other licenses; less than anticipated consumer acceptance of our offering of products and events; less than effective marketing and promotion; decreased consumer spending in response to weak economic conditions or weakness in the overall electronic games category; adverse changes in foreign exchange rates; decreased sales of our products and events as a result of increased competitive activities by our competitors; changes in consumer purchasing behavior such as the impact of higher energy prices on consumer purchasing behavior; retailer inventory management or reductions in retailer display space; less than anticipated results from our existing or new products or from its advertising and/or marketing plans; or if our expenses, including, without limitation, for marketing, advertising, promotions, product returns or price protection expenditures, exceed the anticipated level of expenses, our liquidity position may continue to be insufficient to meet our future capital requirements.

Risks Related to Our Business and Industry

We may not be successful in identifying and implementing one or more strategic alternatives for our business, and any strategic alternative consummate could have material adverse consequences for us.

Due to the uncertainty surrounding our ability to raise funding in the form of potential Capital Financing, and in light of our liquidity position and funding requirements, we have decided to continue to explore other strategic alternatives and potential options for our business (a "Strategic Transaction"), not limited to, the sale or licensing of certain of our assets in addition to the sale of our NASCAR License to iRacing on October 3, 2023. Any Strategic Transaction that we may consummate could harm our business, brand, operating results and financial condition. There can be no assurances that any particular Strategic Transaction or series of Strategic Transactions, will be pursued, successfully consummated, lead to increased shareholder value, or achieve the anticipated results. For example, we are currently in discussions with a third-party for the potential sale of our NASCAR license. There are no assurances that we will be successful in consummating a sale of our NASCAR license, which is subject to the satisfaction of conditions beyond our control, such as, among other things, the requirements of NASCAR. However, if such sale is consummated, we expect that we would no longer have the right to use the NASCAR brand for our products, subject to certain exceptions. This would also require us to modify our existing business model and will significantly alter the risk profile relating to our operations. Our NASCAR franchise has historically accounted for the majority of our revenue. For example, revenues associated with our NASCAR franchise accounted for approximately 67.5% of our total revenue for the six months ended June 30, 2023 and 2022, respectively. As a result, we may encounter difficulties or challenges in continuing operations if our NASCAR license is consummated, and our cash flows and results of operations will likely be materially adversely impacted.

Any Strategic Transaction including the sale of our NASCAR license, could involve a number of other risks and uncertainties, including, but not limited to:

- the occurrence of significant costs related to the evaluation and consummation of any Strategic Transaction, such as legal and accounting fees and other related charges, as well as unanticipated expenses in connection with the process;
- disposing of an asset at a price or on terms that are less desirable than we had anticipated;
- uncertainties as to the timing of any Strategic Transaction and the risk that such transaction may not be completed in a timely manner or at all;
- the possibility that any or all of the conditions to the consummation of any Strategic Transaction may not be satisfied or waived;
- diversion of management's attention from our ongoing operations;
- greater disruption to our remaining business than expected;
- reputational harm with employees, suppliers, business partners and others, as well as the loss of brand recognition and customer loyalty; and
- exposure to litigation or other claims resulting from any Strategic Transaction.

Additionally, even if we are successful in implementing one or more Strategic Transactions, including the consummation of a sale of our NASCAR license, we may require additional funding and/or further cost reduction measures in order to continue operations, which includes further restructuring of our business and

We depend on a relatively small number of franchises for a significant portion of our revenues and profits.

We follow a franchise model and a significant portion of our revenues has historically been derived from products based on a relatively small number of franchises, including our NASCAR products, which have historically accounted for the majority of our revenue. For the nine months ended September 30, 2023, revenues associated with our NASCAR franchise accounted for approximately 70.9% and 60.5% of our total revenue, respectively.

Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises, or the loss of a franchise, could negatively impact our business. For example, with the consummation of the sale of our NASCAR License to iRacing on October 3, 2023, we will no longer be the official video game developer and publisher for the NASCAR video game racing franchise and no longer have the exclusive right to create and organize races and events for NASCAR using our NASCAR racing video games. Accordingly, we no longer have the right to use the NASCAR brand for our products other than the non-exclusive right and license to, among other things, sell our NASCAR games and DLCs that are currently in our product portfolio through December 31, 2023. We believe this will require us to modify our existing business model and significantly alter the risk profile relating to our operations. As a result, we may encounter difficulties or challenges in continuing operations due to the sale of our NASCAR License, and our cash flows and results of operations will likely be materially adversely impacted. We anticipate the amount of revenue to be generated by our existing NASCAR products to decline over time.

Additionally, if the popularity of a franchise declines, we may have to write off the unrecovered portion of the underlying intellectual property assets, which could negatively impact our business. In the future, we expect this trend to continue with a relatively limited number of franchises producing a disproportionate percentage of our revenues and profits.

Our ability to acquire and maintain licenses to intellectual property, especially for racing series, affects our revenue and profitability. Competition for these series may make them more expensive and increase our costs.

Most of our products and services are based on or incorporate intellectual property owned by others. For example, we have obtained an exclusive license to use multi-platform games for the 24 Hours of Le Mans race, the WEC and INDYCAR. Additionally, through a series of joint ventures and other agreements with racing series, we own exclusive rights to operate various esports tournaments and leagues, including the Le Mans Virtual Series. Competition for these licenses is intense and could result in increased minimum guarantees and royalty rates payable to licensors and developers, which would significantly increase our costs and negatively impact our profitability. Furthermore, if we are unable to maintain these licenses and rights or obtain additional licenses or rights with significant commercial value, our ability to develop successful and engaging games and services may be adversely affected and our revenue, profitability and cash flows may decline significantly. As discussed elsewhere in this Report, we sold our NASCAR License to iRacing on October 3, 2023 and our cash flows and results of operations will likely be adversely impacted as we anticipate the amount of revenue to be generated by our existing NASCAR products to decline over time. Additionally, on October 10, 2023, BARC delivered notice to us terminating the BTCC License Agreement because we were unable to satisfy certain of our obligations under the BTCC License, including the release and sale of BTCC gaming and esports products within two years of the effective date off the BTCC License Agreement and the payment of royalties, including certain minimum annual guarantees.

Risks Related to Our Company

Impairment of our goodwill or other intangible assets has had, and in the future could have, a material adverse impact on our results of operations.

As of ~~June 30, 2023~~ September 30, 2023, we had other intangible assets, net of ~~\$8.5 million~~ \$8.0 million. We are required under generally accepted in the U.S. to review our goodwill for impairment at least annually, and to review goodwill and other intangible assets when events or changes in circumstances indicate that carrying value may not be recoverable. Some factors that may be considered events or changes in circumstances that would require our goodwill and other intangible assets to be reviewed for impairment include, among other, general economic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific factors such as changes to our product road map and restructuring changes, and changes in our share price. We may be required to record impairment charges during any period in which we determine that our goodwill and/or other intangible assets are impaired, which has had, and in the future could have, a material adverse impact on our results of operations. For example, for the ~~six~~ nine months ended ~~June 30, 2023~~ September 30, 2023, we recorded impairment of other intangible assets of \$4.0 million, and for the year ended December 31, 2022, we recorded impairment of intangible assets of \$4.8 million and impairment of goodwill of \$1.0 million.

We may not successfully manage the transitions associated with certain of our executive officers, which could have an adverse impact on us.

On ~~September 9, 2022~~ November 3, 2023, Jonathan New notified us of his decision to resign from his role as our Chief Financial Officer. On ~~September 23, 2022~~ as of November 8, 2023, Effective ~~March 20, 2023~~ November 8, 2023, we appointed Jason Potter to serve as our Interim Chief Financial Officer. Prior to Mr. Potter's appointment to the permanent tenure as our Chief Financial Officer, role, we had other individuals, including ~~David Kozko~~, our former Chief Executive Officer, John Delta, a member of our board of directors, and Jonathan New serve in an Interim Chief Financial Officer capacity, or in an Officer capacity, as applicable, since January 2020. Additionally, on April 14, 2023, the Company's board of directors determined to terminate Mr. Kozko's employment with the Company as its Chief Executive Officer without "Cause" (as such term is defined in Mr. Kozko's employment agreement) effective as of April 19, 2023. Following Mr. Kozko's termination, the Company's board of directors appointed Stephen Hood as the Company's new Chief Executive Officer and President. Executive transitions may be inherently difficult to manage, and inadequate transitions to a new Chief Executive Officer and/or a permanent Chief Financial Officer may disrupt the Company. In addition, our financial performance and ability to meet operational goals and strategic plans may be adversely impacted, particularly if we are unable to attract and retain a qualified candidate to become our permanent Chief Financial Officer in a timely manner. This may negatively impact our ability to retain and hire other key members of management.

Item 2. Unregistered Sales of Equity Securities, and Use of Proceeds, and Issuer Purchases of Equity Securities**Unregistered Sales of Equity Securities**

There were no unregistered sales of equity securities during the quarter ended **June 30, 2023** **September 30, 2023**, other than as reported in our Current Report on Form 8-K filed with the SEC.

Purchases of Equity Securities

We did not purchase any shares of our Class A common stock during the quarter ended **June 30, 2023** **September 30, 2023**.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

None. On November 3, 2023, Jason Potter notified the Company of his decision to resign as the Company's Chief Financial Officer, Secretary and Treasurer, effective November 8, 2023, for personal reasons. Mr. Potter had been serving as the Company's principal financial officer and principal accounting officer.

In connection with the resignation of Mr. Potter, Stanley Beckley was appointed as the Company's Interim Chief Financial Officer, effective November 8, 2023, and will serve as the Company's principal financial officer and principal accounting officer.

Mr. Beckley, age 41, initially joined Driven Lifestyle Group LLC (formerly Motorsport Network, LLC), the majority stockholder of the Company, in February 2023, as Vice President of Finance and Chief Accounting Officer – a role he will continue to serve in. Mr. Beckley has over eighteen years of experience in leading finance and accounting teams and managing complex technical accounting matters. Prior to joining Driven Lifestyle, Mr. Beckley spent nine years with KPMG as a Senior Manager in its Audit Practice and also spent time working as a Corporate Controller for H.I.G. Capital, a global private equity firm headquartered in Miami. More recently, Mr. Beckley was the Chief Financial Officer of a national firm that provides consulting, emergency management, and disaster health and medical services. He graduated with Bachelor of Science degrees in Accounting with honors from Florida International University and holds active Certified Public Accounting licenses in the states of Florida and California. Mr. Beckley is also a certified Fraud Examiner and a Chartered Certified Accountant.

There are no arrangements or understandings between Mr. Beckley and any other person pursuant to which he was appointed to serve as the Company's Interim Chief Financial Officer. There are also no family relationships between Mr. Beckley and any director or executive officer of the Company, and Mr. Beckley does not have any direct or indirect material interest in any "related party" transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

In connection with Mr. Beckley's appointment as the Company's Interim Chief Financial Officer, on November 8, 2023, the Company and Mr. Beckley entered into a written employment agreement (the "Beckley Offer Letter"). Pursuant to the Beckley Offer Letter, Mr. Beckley will receive an annual base salary equal to \$230,000. Mr. Beckley will be eligible for an annual bonus based on performance metrics, for an annual bonus of \$20,000 payable on March 31 of the year following the calendar year for which the annual bonus was earned. Mr. Beckley will be first eligible for the annual bonus payment on March 31, 2024, subject to pro-rata for time served in calendar year ended December 31, 2023, based on achievement of performance metrics as set by the Company.

The foregoing description of the Beckley Offer Letter is not intended to be complete and is qualified in its entirety by reference to the full text of the Beckley Offer Letter, which is filed as Exhibit 10.1 to this Report and is incorporated herein by reference.

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference				Filed/
		Form	File No.	Exhibit Number	Filing Date	
3.1.1	Certificate of Incorporation of Motorsport Games Inc.	S-1/A	333-251501	3.3	1/11/21	
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Motorsport Games Inc.	8-K	001-39868	3.1	11/10/22	
3.2.1	Bylaws of Motorsport Games Inc.	S-1/A	333-251501	3.4	1/11/21	
3.2.2	Amendment No. 1 to the Bylaws of Motorsport Games Inc.	8-K	001-39868	3.2	11/10/22	
10.1	Statement of Terms and Conditions of Employment, effective as of April 19, 2023, between Motorsport Games Limited (the Company's UK subsidiary) and Stephen Hood	8-K	001-39868	10.1	4/19/23	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act					
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act					
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350					
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)					

Exhibit Number	Description	Incorporated by Reference				Filed/
		Form	File No.	Exhibit Number	Filing Date	
3.1.1	Certificate of Incorporation of Motorsport Games Inc.	S-1/A	333-251501	3.3	1/11/21	
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Motorsport Games Inc.	8-K	001-39868	3.1	11/10/22	
3.2.1	Bylaws of Motorsport Games Inc.	S-1/A	333-251501	3.4	1/11/21	
3.2.2	Amendment No. 1 to the Bylaws of Motorsport Games Inc.	8-K	001-39868	3.2	11/10/22	
10.1	Assignment and Assumption Agreement, dated as of October 3, 2023, among the Company, 704Games LLC and iRacing.com Motorsport Simulations, LLC	8-K	001-39868	10.1	10/5/23	

	10.2*	<u>Consent to Assignment and Assumption of, and Releases, dated as of October 3, 2023, among 704Games LLC, iRacing.com Motorsport Simulations, LLC and NASCAR Team Properties</u>	8-K	001-39868	10.2	10/5/23
	10.3*	<u>Limited License Agreement, dated as of October 3, 2023, between 704Games LLC and NASCAR Team Properties</u>	8-K	001-39868	10.3	10/5/23
	31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>				
	31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>				
	32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u>				
	10.4	<u>Offer letter for Stanley Beckley, Interim Chief Financial Officer</u>				
	101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				
	101.SCH	Inline XBRL Taxonomy Extension Schema Document				
	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
	101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
	104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)				

* Portions of the exhibit, marked by brackets, have been omitted because the omitted information (i) is not material and (ii) is the type that the Company deems to be private or confidential.

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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 following persons thereunto duly authorized.

Date: August 21, 2023 November 7, 2023

MOTORSPORT GAMES INC.

By: /s/ Stephen Hood
Stephen Hood
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jason Potter
Jason Potter
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Stanley Beckley
Email: stanley.beckley@motorsport.com
Offer of Employment

Dear Stanley:

This letter, dated November 3rd, 2023, but effective as of November 8th, 2023 (this "Offer of Employment"), is confirming the offer extended to you prior to the referenced below with respect to your full-time "at will" employment as **Interim Chief Financial Officer** at Motorsport Games Inc. (the "Company"). You will commence employment on November 8, 2023 (the "Start Date"). You will report directly to Stephen Hood as the Company's CEO. You will work out of the Miami office of the Company. You were required (and you satisfied such requirements) to provide compliance with the Employment Eligibility Verification law (I-9), and to present documents evidencing your identity and employment eligibility the first day of your employment.

A. TERM OF EMPLOYMENT /CONDITIONAL NATURE OF OFFER

The term of your employment is indefinite and at will. The Company maintains a strict employment at will policy, and your employment with the Company will be terminated at any time in the sole business discretion of the Company. This Offer of Employment does not create a contract of employment as to terms and conditions of employment, including compensation for services actually provided and other terms expressly provided for in this Offer of Employment. If the Company terminates your employment with the Company without Cause (as defined below) and you are not otherwise employed by any of the Company's affiliates nor providing consulting services to the Company or any of its affiliates, then you will be entitled to a continuation of payment of unpaid base salary from the effective date of such termination to the expiration of the Severance Period (as defined below), payable on a regular basis in accordance with the Company's normal payroll procedures and policies, and subject to the deduction of all applicable taxes and payroll deductions (the "Severance"). Your right to receive, and the Company's obligation to pay and provide, any of the payments of Severance shall be conditioned upon your compliance with, and observance of, all of your obligations under this Offer of Employment that continue beyond such termination and (2) your execution and non-revocation of, and performance under, a release in favor of the Company and its affiliates in the form acceptable to the Company within forty-five (45) days of the termination of your employment.

"Cause" means any of the following acts or omissions: (a) the refusal or failure, for more than five (5) days from the date of notice by the Company to you to perform any duties required of you by this Offer of Employment or lawful instructions of the Manager of the Company (prior to the establishment of the Board) or the directors of the Company (the "Board") or the Board (after the establishment of the Board); (b) the commission by you of any fraud, misappropriation or other acts that causes demonstrable material injury to the Company or any of its affiliates or subsidiaries; (c) your conduct which constitutes the breach of any statutory or common law duty of loyalty to the Company; (d) any material breach by you of any provisions of this Offer of Employment; (e) any illegal act by you that affects the business of the Company; conviction of, or a plea of guilty or nolo contendere to, a misdemeanor involving moral turpitude, dishonesty, fraud, deceit, theft, unethical business conduct that impairs the reputation of the Company or any of its subsidiaries or affiliates, or a felony (or the equivalent thereof in a jurisdiction other than the United States); (f) your failure to comply in any material respect with this Offer of Employment or any other written agreement between you, on the one hand, and the Company or any of its subsidiaries, on the other, if such failure causes demonstrable material injury to the Company or any of its subsidiaries; or (f) gross negligence, dishonesty or willful misconduct in connection with your duties (either by an act of commission or omission).

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B. COMPENSATION

The Company will provide you:

1. A starting annual salary of \$230,000 per year, paid in bi-monthly instalments on the Company's standard payday;
2. \$20,000 performance based annual bonus earned on a calendar year basis. In order to earn any bonus compensation, you must continue to be employed by the Company through the bonus payment date. All bonuses are subject to applicable withholdings and other deductions as required or permitted by law. Bonus payments will be made no later than March 31 of the year following the year to which the bonus relates. For example purposes only, a discretionary bonus due in respect of fiscal year ending December 31, 2023, will be payable no later than March 31, 2024. You will be first eligible for payment on March 31, 2024 and the Annual Bonus will be pro-rated based on months served in calendar year ended December 31, 2023, provided that the required performance metrics are met. The performance metrics used to determine whether the Annual Bonus will be earned and payable will be determined by the Company at a later date;
3. Company paid time-off, including sick days and holidays, all in accordance with the Company's standard policies as in effect from time to time, including but not limited to, 21 days of paid time-off that is accrued ratably over a 12-month period; and
4. Company available employee health benefits, as in effect from time to time. At this time, such benefits are provided by a Professional Employer Organization engaged by the Company (currently ADP), which presently includes medical and non-medical (i.e., dental, vision, life, and disability) insurance plans to contribute to your retirement savings under a 401(k) plan (please note that at present the Company does not make any Company matching contributions to the Plan). Your participation in such benefit plans is subject to all of the terms and conditions of the applicable benefit plan documents including, without limitation, any waiting periods set forth in the applicable plan documents.

C. EXPENSES

Your approved expenses associated with business travel and other proper business purposes will be reimbursed in accordance with company expense procedures and policies. However, for direct flights longer than 4 hours, you will be entitled to travel business class.

D. EXEMPT POSITION

The Company's regular office hours are 9:00am to 6:00pm. Monday through Friday. As a salaried Company professional, consider this an exempt position, and therefore not entitled to overtime pay. If you have questions about this or any other term of this Offer of Employment, we urge you to contact an attorney (at your expense) and to immediately notify the Company in the event you wish adjustments, if and as are appropriate, to be made.

E. NON-DISCLOSURE COMMITMENT AND ASSIGNMENT OF INTELLECTUAL PROPERTY

While you are employed by the Company or its affiliates and after your employment ends for any reason, you agree to abide by the terms of the Employment Agreement, Confidentiality, Proprietary Information and Inventions Agreement to be provided to you upon acceptance of this Offer of Employment.

F. PROCESSING OF PERSONAL DATA

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In connection with your employment, the Company needs to keep, process and share across international borders information about you for normal purposes, and as a company pursuing digital media activities, we may sometimes need to process your data to pursue our legitimate business interests. The data we hold and process will be used for our management and administrative use only. We will keep and use it to enable us to run the business and manage our relationship with you effectively, lawfully and appropriately, during the recruitment process, whilst you are working for us, at the time when your employment ends and you have left. This includes using information to enable us to comply with the employment contract if any, to comply with any legal requirements, pursue the legitimate interests of the Company and protect our legal position in the event of legal proceedings. By applying for and entering into employment with us, you hereby grant the Company to process this data for the above-mentioned purposes, and in accordance with the HR Recruitment and Staff Policies, which have been or will be provided to you. If you do not provide this data, we may be unable in some circumstances to comply with our obligations and we will tell you about the implications of this.

G. FUTURE INCENTIVE COMPENSATION PLAN

You will be eligible to participate in the Company's Incentive Compensation Plan ("ICP"). The Company, in its sole discretion and subject to the Company approving an amendment to the ICP to increase the number of shares of the Company's Class A common stock to become available for awards under the ICP, will recommend to the compensation committee of the board of directors of the Company (subject to such committee's discretion) to make annual grants of options for such number of Company's Class A shares common stock that would equal to your then applicable base annual salary divided by the closing price of the Company's Class A shares on the date of each such grant, which, if granted, would vest in three equal annual installments from the date of each grant, in accordance with the terms and pursuant to the Company's standard forms under the ICP. Details of the ICP can be found in our public filings.

H. NO VESTING

Any provisions by the Company for supplementary compensation (i.e. in addition to your regular salary) whether included in this compensation agreement or separately hereafter, including, but not limited to, the right to receive any bonus or participate in any ICP or similar plan are intended to provide you with incentive compensation while you are employed at the Company and not as an independent agency or brokerage type arrangement. Your right to receive any such payment or option grant ends when your employment with the Company ends for any reason. Any such compensation is earned only upon complete achievement of a specific goal (to the dollar) or condition attached to it, and there is no pro-rata earning of any bonus or supplementary compensation. If you are not employed by the Company on the day all conditions of entitlement to a particular payment have been completely satisfied; you will not have earned any portion of payment. There is no right to bonus or incentive compensation payments either in total or pro-rata, and you will receive the payment only if you are an employee on the date of the actual payment. As extraordinary compensation provisions, goals, time deadlines, definitions and other provisions of incentive bonus and other compensation commitments are to be strictly construed.

I. NO CONFLICT

Applicant represents and warrants that Applicant is not subject to any agreement, order, judgment or decree of any kind which would prevent Applicant from entering into this Agreement or performing fully Applicant's obligations hereunder. Applicant acknowledges being instructed: (a) that it is the Applicant's policy not to compete with the Company or any Affiliate or make use of trade secrets or confidential business information belonging to other persons or organizations, including but not limited to competitors and former employers; and (b) that Applicant should not, under any circumstances, reveal to the Company or any Affiliate or make use of trade secrets or confidential information belonging to any other person or organization. Applicant represents and warrants that Applicant has not violated and shall not violate such instructions.

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J. ADDITIONAL ACTIVITIES

This Offer of Employment is conditioned upon your agreement to enter into a Confidentiality, Proprietary Information and Inventions Agreement, pursuant to which you will agree that during the period of your employment with the Company, you will (a) provide services to such entity faithfully, diligently and to the best of your ability, devote your entire business time, energy and skill to such employment and will not, without the Company's express written consent, engage in any other business activity which is competitive with, or would otherwise conflict with, your employment by the Company, its subsidiaries, affiliates, predecessors and successors; and (b) not directly or indirectly induce or solicit, or aid or assist any person or entity to induce or solicit (i) any employee or independent consultant of the Company to leave the employ of or other relationship the Company and/or (ii) any customers or clients of the Company and/or terminate, curtail or otherwise limit its, his or her employment by or business relationship with the Company and/or its affiliates.

The Company hereby acknowledges and agrees that the employee may from time to time advise and assist affiliated entities of the Company, such company or its subsidiaries.

K. ENTIRE AGREEMENT

This Offer of Employment sets forth the entire understanding of the parties with respect to the subject matter hereof, supersedes all memoranda or existing agreements and may be modified only by a written instrument duly executed by each party.

L. CONCLUSION

We are very excited that you are joining us here at the Company and look forward to the valuable contributions you will make. We expect this to be a mutual relationship. If this Offer of Employment is acceptable, please sign and return the original to me.

Should you have any questions or concerns, please feel free to contact Chief Executive Officer directly. I may be reached via e-mail at sh@motorsportgames.com. Regards,

MOTORSPORT GAMES INC

By:

Stephen Hood, CEO

Accepted by:

Stanley Beckley

Motorsport Games

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT**

I, Stephen Hood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Motorsport Games 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 reports 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, that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within the registrant and 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 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 our 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.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT**

I, Jason Potter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Motorsport Games 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 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 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;
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within 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 our 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.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Motorsport Games Inc. (the "Company") for the quarter ended ~~June 30, 2023~~ September 30, 2023, the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Stephen Hood, Chief Executive Officer of the Company, and Jason Potter, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 21, 2023 November 7, 2023

Chief Executive Officer
(Principal Executive Officer)

/s/ Jason Potter

Jason Potter

Chief Financial Officer

(Principal Financial and Accounting Officer)

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