**Item 8. Financial Statements and Supplementary Data**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Motorsport Games Inc.

**Opinion on the financial statements**

We have audited the accompanying consolidated balance sheets of Motorsport Games Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

**Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company incurred a net loss of approximately $14.3 million and negative cash flows from operations of approximately $12.9 million during the year ended December 31, 2023. These conditions, along with other matters as set forth in Note 1, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Basis for opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ GRANT THORNTON LLP*

We have served as the Company's auditor since 2021.

Miami, Florida
April 1, 2024

**MOTORSPORT GAMES INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,675,210 | $ 979,306 |
| Accounts receivable, net of allowances of $450,000 and $2,252,383 as of December 31, 2023 and 2022, respectively | 735,839 | 1,809,110 |
| Due from related parties | - | 206,532 |
| Prepaid expenses and other current assets | 1,106,848 | 1,048,392 |
| Total Current Assets | 3,517,897 | 4,043,340 |
| Property and equipment, net | 247,693 | 522,433 |
| Operating lease right of use assets | 197,307 | 971,789 |
| Intangible assets, net | 5,795,807 | 13,360,230 |
| Total Assets | $ 9,758,704 | $ 18,897,792 |
| **Liabilities and Stockholders' Equity** | | |
| Current Liabilities: | | |
| Accounts payable | $ 813,659 | $ 2,372,219 |
| Accrued expenses and other liabilities | 1,891,315 | 3,416,424 |
| Due to related parties | 77,716 | 4,589,211 |
| Purchase commitments | 4,656,538 | 2,563,216 |
| Operating lease liabilities (current) | 153,015 | 380,538 |
| Total Current Liabilities | 7,592,243 | 13,321,608 |
| Operating lease liabilities (non-current) | 45,659 | 617,288 |
| Other non-current liabilities | 31,098 | 3,055,498 |
| Total Liabilities | 7,669,000 | 16,994,394 |
| Commitments and contingencies (Note 12) | | |
| **Stockholders' Equity** | | |
| Preferred stock, $0.0001 par value; authorized 1,000,000 and 1,000,000 shares; and none issued and outstanding as of December 31, 2023 and December 31, 2022, respectively | - | - |
| Class A common stock, $0.0001 par value; authorized 100,000,000 and 100,000,000 shares; 2,722,728 and 1,183,812 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively | 269 | 117 |
| Class B common stock, $0.0001 par value; authorized 7,000,000 and 7,000,000 shares; 700,000 and 700,000 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively | 70 | 70 |
| Additional paid-in capital | 91,923,311 | 76,446,061 |
| Accumulated deficit | (87,030,270) | (73,979,131) |
| Accumulated other comprehensive loss | (1,850,216) | (933,406) |
| Total Stockholders' Equity Attributable to Motorsport Games Inc. | 3,043,164 | 1,533,711 |
| Non-controlling interest | (953,460) | 369,687 |
| Total Stockholders' Equity | 2,089,704 | 1,903,398 |
| Total Liabilities and Stockholders' Equity | $ 9,758,704 | $ 18,897,792 |

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

**MOTORSPORT GAMES INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Year Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| **Revenues** | $ 6,909,674 | $ 10,324,559 |
| Cost of revenues [1] | 3,620,495 | 4,960,317 |
| Gross Profit | 3,289,179 | 5,364,242 |
| | | |
| **Operating Expenses:** | | |
| Sales and marketing [2] | 1,690,772 | 6,172,324 |
| Development [3] | 7,237,154 | 10,417,260 |
| General and administrative [4] | 9,367,030 | 13,764,177 |
| Impairment of goodwill | - | 4,788,270 |
| Impairment of intangible assets | 4,004,627 | 4,828,478 |
| Depreciation and amortization | 398,701 | 420,137 |
| Total Operating Expenses | 22,698,284 | 40,390,646 |
| Loss From Operations | (19,409,105) | (35,026,404) |
| Interest expense [5] | (772,989) | (1,148,204) |
| Other income (expense), net | 5,858,909 | (665,846) |
| **Net Loss** | (14,323,185) | (36,840,454) |
| Less: Net loss attributable to non-controlling interest | (1,272,046) | (849,649) |
| **Net Loss Attributable to Motorsport Games Inc.** | $ (13,051,139) | $ (35,990,805) |
| | | |
| Net loss per Class A common share attributable to Motorsport Games, Inc.: | | |
| Basic and Diluted | $ (5.06) | $ (30.73) |
| Weighted-average shares of Class A common stock outstanding: | | |
| Basic and Diluted | 2,577,451 | 1,171,323 |

[1] Includes related party costs of $0 and $6,228 for the years ended December 31, 2023 and 2022, respectively.

[2] Includes related party expenses of $17,076 and $565,759 for the years ended December 31, 2023 and 2022, respectively.

[3] Includes related party expenses of $51,516 and $76,093 for the years ended December 31, 2023 and 2022, respectively.

[4] Includes related party expenses of $379,944 and $394,358 for the years ended December 31, 2023 and 2022, respectively.

[5] Includes related party expenses of $0 and $75,616 for the years ended December 31, 2023 and 2022, respectively.

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

**MOTORSPORT GAMES INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

| | For the Year Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| Net loss | $ (14,323,185) | $ (36,840,454) |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | (916,810) | 11,969 |
| Comprehensive loss | (15,239,995) | (36,828,485) |
| Comprehensive loss attributable to non-controlling interests | (1,323,147) | (892,978) |
| Comprehensive loss attributable to Motorsport Games Inc. | $ (13,916,848) | $ (35,935,507) |

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

**MOTORSPORT GAMES INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total-Stockholders' Equity Attributable to Motorsport Games Inc. | Non-controlling Interest | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | | |
| **Balances - January 1, 2022** | 1,163,590 | $ 116 | 700,000 | $ 70 | $75,652,853 | $ (37,988,326) | $ (945,375) | $ 36,719,338 | $ 1,262,665 | $ 37,982,003 |
| Equity settled issuance costs | 7,576 | - | - | - | 40,000 | - | - | 40,000 | - | 40,000 |
| Issuance of common stock | 8,877 | 1 | - | - | 38,685 | - | - | 38,686 | - | 38,686 |
| Stock-based compensation | 3,769 | - | - | - | 714,523 | - | - | 714,523 | - | 714,523 |
| Other comprehensive loss | - | - | - | - | - | - | 11,969 | 11,969 | (43,329) | (31,360) |
| Net loss | - | - | - | - | - | (35,990,805) | - | (35,990,805) | (849,649) | (36,840,454) |
| **Balances - December 31, 2022** | 1,183,812 | $ 117 | 700,000 | $ 70 | $76,446,061 | $ (73,979,131) | $ (933,406) | $ 1,533,711 | $ 369,687 | $ 1,903,398 |
| Issuance of common stock | 734,741 | 74 | - | - | 10,571,460 | - | - | 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 |
| Stock-based compensation | 23,790 | | - | - | 957,302 | - | - | 957,302 | - | 957,302 |
| Other comprehensive loss | - | - | - | - | - | - | (916,810) | (916,810) | (51,101) | (967,911) |
| Net loss | - | - | - | - | - | (13,051,139) | - | (13,051,139) | (1,272,046) | (14,323,185) |
| **Balances at December 31, 2023** | 2,722,728 | $ 269 | 700,000 | $ 70 | $91,923,311 | $ (87,030,270) | $ (1,850,216) | $ 3,043,164 | $ (953,460) | $ 2,089,704 |

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

**MOTORSPORT GAMES INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (14,323,185) | $ (36,840,454) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on impairment of intangible assets | 4,004,627 | 4,828,478 |
| Loss on impairment of goodwill | - | 4,788,270 |
| Loss on disposal of property and equipment | 610 | 108,716 |
| Gain on sale of NASCAR License | (3,037,341) | - |
| Depreciation and amortization | 2,115,430 | 2,062,552 |
| Purchase commitment and license liability interest accretion | 646,022 | 957,938 |
| Non-cash lease expense | - | 423,683 |
| Stock-based compensation | 957,302 | 714,523 |
| Changes in the fair value of warrants | (446,902) | - |
| Sales return and price protection reserves | (25,427) | 1,818,397 |
| Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates: | | |
| Accounts receivable | 1,374,897 | 1,808,542 |
| Due from related parties | 206,035 | (582,435) |
| Operating lease liabilities | (24,664) | (397,671) |
| Prepaid expenses and other assets | (59,021) | 133,890 |
| Accounts payable | (1,640,692) | 525,292 |
| Due to related parties | (562,481) | 644,247 |
| Accrued expenses and other liabilities | (2,101,392) | (514,438) |
| **Net cash used in operating activities** | $ (12,916,182) | $ (19,520,470) |
| | | |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of NASCAR License | 5,000,000 | - |
| Purchase of intangible assets | (757,500) | - |
| Purchase of property and equipment | (31,653) | (292,446) |
| **Net cash provided by (used in) investing activities** | $ 4,210,847 | $ (292,446) |
| | | |
| **Cash flows from financing activities:** | | |
| Advances from related parties | - | 3,766,667 |
| Repayments of purchase commitment liabilities | (850,000) | (1,730,000) |
| Issuance of common stock from stock purchase commitment agreement | 644,750 | 38,686 |
| Issuance of common stock from registered direct offerings | 10,404,784 | - |
| Payment of license liabilities | (262,500) | (362,500) |
| **Net cash provided by financing activities** | $ 9,937,034 | $ 1,712,853 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (535,795) | 1,259,729 |
| | | |
| **Net increase (decrease) in cash and cash equivalents** | 695,904 | (16,840,334) |
| | | |
| **Total cash and cash equivalents at beginning of the year** | $ 979,306 | $ 17,819,640 |
| | | |
| **Total cash and cash equivalents at the end of the year** | $ 1,675,210 | $ 979,306 |
| | | |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid during the year for: | | |
| Interest | $ 415,046 | $ 190,266 |
| | | |
| **Non-cash investing and financing activities:** | | |
| Commitment fees settled with shares issued to Alumni Capital LLP | $ - | $ 40,000 |
| Reduction of member contributions in MS Gaming Development LLC | $ - | $ 86,349 |
| Shares issued to Driven Lifestyle Group LLC for extinguishment of related party loan | $ 3,948,556 | $ - |
| 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 | $ 39,852 | $ - |
| Receivable from sale of NASCAR License | $ 500,000 | $ - |

The accompanying notes are an integral part of these 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 property and assets of Motorsport Gaming, and all of the debts and obligations of Motorsport Gaming were assumed by Motorsport Games by operation of law upon such corporate conversion.

### Risks and Uncertainties

*Liquidity and Going Concern*

The Company had a net loss of $14.3 million and negative cash flows from operations of $12.9 million for the year ended December 31, 2023. As of December 31, 2023, the Company had an accumulated deficit of $87.0 million and cash and cash equivalents of $1.7 million, which decreased to $1.3 million as of March 29, 2024.

For the year ended December 31, 2023, the Company 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 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 continues to explore several options, including, but not limited to: i) additional funding in the form of potential equity and/or debt financing arrangements or similar transactions (collectively, "Capital Financing"); ii) other strategic alternatives for its business, including, but not limited to, the sale or licensing of the Company's assets in addition to the recent sale of its NASCAR License; and iii) cost reduction and restructuring initiatives, 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 (the "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 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). 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 December 31, 2023, the Company had an aggregate of $2.9 million available for future sales under its ATM program, which was reduced to $1.1 million of availability as of the date of this Report in accordance with the SEC's baby shelf rules. However, due to the Company's present liquidity position and required future funding requirements, any funds raised via its ATM program would not be sufficient to satisfy its ongoing 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 its ATM program, should it choose to sell shares under the ED Agreement, nor can there be any other 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 its future 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 liquidity position and anticipated future funding requirements, the Company continues to explore other strategic alternatives and potential options for its business, including, but not limited to, the sale or licensing of certain of the Company's assets in addition to the recent sale of its NASCAR License. If any such additional strategic alternative is executed, it is expected it would help to improve the Company's working capital position and reduce overhead expenditures, thereby 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, 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 business and operations. There are no assurances that the Company will be successful in implementing any additional strategic plans for the sale or licensing of its assets, or any other strategic alternative, which may be subject to the satisfaction of conditions beyond the Company's control.

As the Company continues to address its liquidity constraints, the Company may need to make further adjustments to its product roadmap in order to reduce operating cash burn. Additionally, the Company continues to seek to improve its liquidity through maintaining and enhancing cost control initiatives. The Company plans to continue evaluating the structure of its business for additional changes in order to improve both its near-term and long-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 Driven Lifestyle Group LLC ("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, 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 Driven Lifestyle or affiliates and/or third parties, or that the transactions may not 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, incurrence 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.

Even if the Company does secure additional Capital Financing, if the anticipated level of revenues are not achieved because of, for example, decreased sales of the Company's products due to the disposition of key assets, such as the sale of its NASCAR 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 consumer acceptance of the Company's offering of products and events; less than effective marketing and promotion campaigns, decreased consumer spending in 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; changes in consumer purchasing habits, 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 the Company's existing or new products or from its advertising and/or marketing plans; or if the Company's expenses, including, without limitation, for marketing, advertising and promotions, product returns or price protection expenditures, 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, considered in 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 consolidated financial statements are issued. The factors described above, in particular the lack of available cash on hand to fund operations over the next year, have raised substantial doubt about the Company's ability to continue as a going concern.

The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Accordingly, the 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the operations of the Company and its wholly owned and majority owned subsidiaries. The interests of non-controlling members are reflected as non-controlling interest in the accompanying consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. Unless otherwise indicated, information in these notes to the consolidated financial statements relates to continuing operations.

**Non-controlling interests**

Noncontrolling interests represents the portion of net assets in consolidated subsidiaries that are not attributable, directly or indirectly, to the Company. The net assets of the shared entities are attributed to the controlling and noncontrolling interests based on the terms of the governing contractual arrangements.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect 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 criteria, including allowances for returns and price protection, as well as current expected credit losses, valuation allowance of deferred income taxes, the recognition and disclosure of contingent liabilities, goodwill and intangible assets impairment testing, and stock-based compensation valuation. Certain of the Company's estimates could be affected by external conditions, including those unique to 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.

**Fair Value Measurements**

The Company accounts for its assets and liabilities using a hierarchy of valuation techniques based on whether the inputs to those valuation techniques 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 minimize the use of unobservable inputs and 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, and model-derived valuations 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 earnings. 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 using fair value measurements with unobservable inputs are classified as Level 3. Other financial instruments, including cash and cash equivalents, accounts receivable, prepaid and other assets, accounts payable, accrued expenses, and other current liabilities are carried at cost, which approximate their fair values 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 specific 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 definition of a liability 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 settlement" in a circumstance outside of the Company's control, among other conditions for equity classification. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period-end date while the warrants are outstanding.

**Cash and Cash Equivalents**

The Company considers all highly-liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. The Company maintains cash in bank accounts, which, at times, may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits. The Company has not experienced any losses in such accounts and periodically evaluates the creditworthiness of the financial institutions. The Company's foreign bank accounts are not subject to FDIC insurance.

**Accounts Receivable**

Accounts receivables are carried at their contractual amounts, less an allowance for returns and price protection.

The Company determines its allowances for returns and price protection based on previous experience, existing and expected future economic and market conditions, actual sales and inventories in the distribution channel. See Note 2 – *Summary of Significant Accounting Policies – Revenue Recognition – Allowances for Returns and Price Protection* for additional details.

As of December 31, 2023 and 2022, the Company determined that all of its accounts receivable were fully collectible and, accordingly, no allowance for credit losses was recorded. Allowances for returns and price protection represent the difference between the retail distributor purchase order price and the estimated average sell through price. As of December 31, 2023 and 2022, allowances for returns and price protection were approximately $0.5 million and $2.3 million, respectively.

**Long-Lived Assets**

*Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization, which is provided on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. When assets are sold or otherwise retired, the costs and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results.

Depreciation of property and equipment is computed utilizing the following useful lives:

| | Useful Life |
|---|---|
| Equipment | 3 – 5 years |
| Furniture and fixtures | 3 – 5 years |
| Leasehold improvements | Shorter of remaining lease term or useful life 3 - 10 years |

*Goodwill and Other Indefinite-Lived Assets*

The Company accounts for goodwill and indefinite-lived assets in accordance with ASC 350, *Intangibles—Goodwill and Other* ("ASC 350"), which requires goodwill and indefinite-lived assets to be tested for impairment annually or more frequently, if events or circumstances indicate that the fair value of the asset or the reporting unit associated with the goodwill has decreased below its carrying value.

The Company performs its annual or interim goodwill and indefinite-lived asset impairment tests by comparing the fair value of its reporting units and indefinite-lived assets to their respective carrying values. An entity recognizes an impairment charge for the amount by which the carrying amount of the indefinite-lived asset or reporting unit exceeds its fair value. The Company has determined that its reporting units align with its operating segments as defined in the Segment Reporting section below.

In evaluating goodwill and indefinite-lived assets for impairment, the Company may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit or the indefinite-lived asset is less than its carrying amount. If the Company bypasses the qualitative assessment, or if the Company concludes that it is more likely than not that the fair value of a reporting unit or indefinite-lived asset is less than its carrying value, then the Company performs a one-step quantitative impairment test by comparing the fair value of a reporting unit or indefinite-lived asset with its carrying amount and recognizes a loss on impairment in the event the carrying value exceeds the fair value.

In assessing the fair value of a reporting unit, the Company utilizes discounted cash flow models and market approach methodologies, such as the guideline public company and guideline transaction methodologies. The Company fair values its indefinite-lived assets using valuation methodologies appropriate for the type of asset. Such methods might include discounted cash flow models, relief from royalty and cost to replace methods. The Company performs its impairment testing as of December 31 of each year or as required if triggering events occur indicating a potential for impairment.

*Finite-lived Intangible Assets and Other Long-Lived Assets*

Finite-lived intangible assets subject to amortization are carried at cost less accumulated amortization, and amortized over the estimated useful life in proportion to the economic benefits received.

Amortization of the Company's finite-lived intangible assets has historically been computed using the following useful lives:

| **Intangible Asset** | **Useful Life** |
|---|---|
| License agreements | 1 - 5 years |
| Software | 6 - 10 years |

Finite-lived intangible assets and other long-lived assets, such as plant and equipment, are subject to the provisions of ASC 360, *Property, Plant and Equipment* when determining the extent of impairment losses, if any.

The Company evaluates the recoverability of its finite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. The Company considers certain events and circumstances in determining whether the carrying value of its finite-lived intangible assets and other long-lived assets, other than indefinite-lived intangible assets, may not be recoverable including, but not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in our stock price for a sustained period of time; and changes in the Company's business strategy. If the Company determines the carrying value may not be recoverable, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group to determine whether an impairment exists. If an impairment is indicated based on a comparison of the asset groups' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value.

**Segment Reporting**

The Company uses the management approach to determine its reportable segments. The management approach considers the internal organization and reporting used by the Company's Chief Operating Decision Maker ("CODM") for making operating decisions and assessing performance as the source for determining the Company's reportable segments. The Company's CODM is the Chief Executive Officer ("CEO") of the Company, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. The Company classified its reportable operating segments into (i) the development and publishing of interactive racing video games, entertainment content and services (the "Gaming segment") and (ii) the organization and facilitation of esports tournaments, competitions and events for the Company's licensed racing games as well as on behalf of third-party video game racing series and other video game publishers (the "esports segment").

**Revenue Recognition**

The Company generates revenue primarily through the sale of its digital and physical video game titles, including extra content, principally for the console, PC and mobile platforms. In addition, the Company generates additional revenues through its esports activities including sponsorships and participation fees. The Company's product and service offerings include, but are not limited to:

1. *Premium full games* – Primarily available on console, PC and mobile platforms, our games contain a software license that is delivered digitally or via physical disk at the time of sale;

2. *In-game content* –Downloadable extra content that is accessible by users on either console or PC platforms, which allows consumers to enhance their gameplay experience;

3. *Esports competition events* - Hosting of online esports competitions that generate participation fees and sponsorship revenues; and

4. *Software development* – Providing outsourced code and content development services.

The Company recognizes revenue in accordance with ASC 606, "*Revenue from Contracts with Customers*" ("ASC 606"). The Company determines revenue recognition through the following steps:

- Identification of a contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the performance obligations are satisfied.

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. A receivable is recorded when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the Company's performance obligations are satisfied.

During the years ended December 31, 2023 and 2022, there was no revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods.

*Product Sales*

Product sales consist of our premium full games, which are delivered either digitally or in a physical format. We recognize revenues once both control of the product has been transferred to the customer and any underlying performance obligations have been satisfied. Product sales generally have a singular distinct performance obligation, as the Company does not have an obligation to provide future update rights or online hosting.

Revenues from product sales are recognized after deducting allowances for returns and price protection, which are considered to be variable consideration for the purposes of estimating revenue to recognize.

Certain products are sold to customers with a street date, which is the earliest date these products may be sold by retailers to the end consumer. For these products, the Company recognizes revenues on the later of the street date and the date the product is sold to our customer. For digitally delivered games, the Company recognizes revenue when it is available for download or is activated for gameplay. Revenues are recorded net of taxes assessed by governmental authorities that imposed at the time of the specific revenue generating transaction.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment immediately upon purchase or within 30 to 90 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

*In-game Revenues*

In-game revenues primarily consist of revenue earned through the sale of downloadable content that enhances the gameplay experience for the Company's customers using console, PC or mobile platforms, as well as the purchase of in-game credits for the purchase of downloadable content. In-game credits can only be used for in-game purchases and are non-refundable.

Revenue related to in-game content is recognized at the point in time the Company satisfies its performance obligation, which is generally at the time the customer obtains control of the in-game content, either by downloading the digital in-game content or by purchasing the in-game credits.

*Esports*

The Company recognizes sponsorship revenue associated with hosting online esports competition events over the period of time the Company satisfies its performance obligation under its contracts, which is generally concurrent with the time events are held. If the Company enters into a contract with a customer to sponsor a series of esports events, the Company allocates the transaction price between the series of events and recognizes revenue over the period of time each event is held and the Company satisfies its performance obligations.

*Software Development*

The Company's software development services primarily include the development of gaming platforms and simulators for external customers, licenses fees for use of the products commercially, as well as the associated maintenance, training, and support services related to the deliverables. The contracts with customers set payment milestones over the course of the software development cycle through delivery of the final product. The contracts also provide maintenance and support services with respect to the furnished product over a specified length of time after delivery.

The milestones set within the software development cycle are not considered to be separately identifiable or distinct from the final product. Revenue related to the software development is recognized at the point in time the Company delivers, and the customer takes possession of the final product. Revenue associated with the license, maintenance, training, and support services are recognized over the life of the agreement for such services.

The following table summarizes revenue recognized under ASC 606 in the consolidated statements of operations:

| | For the Year Ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Revenues: | | |
| Gaming | $ 6,619,502 | $ 9,144,639 |
| Esports | 290,172 | 1,179,920 |
| Total Revenues | $ 6,909,674 | $ 10,324,559 |

*Identifying Performance Obligations*

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct (i.e., the customer can benefit from the goods or services either on its own or together with other resources that are readily available) and are distinct in the context of the contract (i.e., it is separately identifiable from other goods or services in the contract). To the extent a contract includes multiple promises, the Company must apply judgment to determine whether those promises are separate and distinct performance obligations. If these criteria are not met, the promises are accounted for as a combined performance obligation.

*Determining the Transaction Price*

The transaction price is determined based on the consideration that the Company will be entitled to receive in exchange for transferring its goods and services to the customer. Determining the transaction price often requires significant judgment based on an assessment of contractual terms and business practices. It further includes reviewing variable consideration such as discounts, sales returns, price protection, and rebates, which is estimated at the time of the transaction. See below for additional information regarding the Company's sales returns and price protection reserves.

*Allocating the Transaction Price*

Allocating the transaction price requires the Company to determine an estimate of the relative stand-alone selling price for each distinct performance obligation.

*Principal Versus Agent Considerations*

The Company evaluates sales to end customers of its full games and related content via third-party storefronts, including digital storefronts such as Microsoft's Xbox Store, Sony's PlayStation Store, Nintendo's eShop, Apple's App Store, and Google's Play Store, to determine whether the Company is acting as the principal or agent in the sale to the end customer. Key indicators that the Company evaluates in determining gross versus net treatment include but are not limited to the following:

- the underlying contract terms and conditions between the various parties to the transaction;
- which party is primarily responsible for fulfilling the promise to provide the specified good or service to the end customer;
- which party has inventory risk before the specified good or service has been transferred to the end customer; and
- which party has discretion in establishing the price for the specified good or service.

Based on an evaluation of the above indicators, the Company determined that, apart from contracts with customers where revenue is generated via the Apple's App Store or Google Play Store, the third party is considered the principal with the end customer and, as a result, the Company reports revenue net of the fees retained by the storefront. For contracts with customers where revenues are generated via the Apple's App Store or Google's Play Store, the Company has determined that it is the principal and, as a result, reports revenues on a gross basis, with mobile platform fees included within cost of revenues.

*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 represents the Company's practice to provide channel partners with a credit allowance to lower their wholesale price on a particular game unit that they have not resold to customers. The amount of the price protection for permanent markdowns is the difference between the original wholesale price and the new 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 future returns and price protections that may occur with distributors and retailers ("channel partners"). See Note 2 – *Summary of Significant Accounting Policies – Accounts Receivable* for additional details.

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

The Company's allowances for returns and price protection as of December 31, 2023 and 2022 were approximately $1.2 million and $4.3 million, respectively. The Company recognized less than $0.1 million and approximately $2.0 million for sales returns and price protections as a reduction of revenues for the years ended December 31, 2023 and 2022, respectively.

**Advertising Costs**

The Company generally expenses advertising costs as incurred, with the exception of non-direct advertising campaign costs that are paid for in advance. Prepaid non-direct advertising costs are recognized as prepaid assets and expensed at the start of the advertising campaign, included in "Sales and marketing" in the consolidated statement of operations.

**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 consolidated balance sheets (Also refer Note 7 – *Accrued Expenses and Other Liabilities*). Revenue collected in advance of the Company's esports events is recorded as deferred revenue until the event occurs. Development and coding revenues are also recorded as deferred revenue until the Company's performance obligation is performed. Furthermore, deferred revenue includes payment advances from the Company's channel partners.

Revenue recognized in the period from amounts included in contract liability at the beginning of the period was approximately $0.3 million and $0.5 million for the years ended December 31, 2023 and 2022, respectively.

**Income Taxes**

On January 8, 2021, Motorsport Gaming US LLC converted into a Delaware corporation pursuant to a statutory conversion and changed its name to Motorsport Games Inc.

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between financial statement book values and the tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable in the foreseeable future. The Company must make significant estimates and assumptions about future taxable income and future tax consequences and tax strategies available to recognize deferred tax assets when determining the amount of the valuation allowance. The additional guidance provided by ASC 740, *Income Taxes* ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC 740 to the extent applicable.

**Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with ASC Subtopic 718, *Stock Compensation* ("ASC 718"). The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. The fair value of the award is measured on the grant date, using the Black-Scholes option pricing model. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Upon the exercise of an award, the Company issues new shares of common stock out of its authorized shares. Stock-based compensation is adjusted for any forfeitures, which are accounted for on an as occurred basis.

**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 the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common and dilutive common-equivalent 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 Year Ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Stock options | 74,765 | 77,253 |
| Warrants | 33,574 | - |
| | 108,339 | 77,253 |

**Foreign Currency Translation**

The Company's functional and reporting currency is the United States Dollar. The functional currency of the Company's operating subsidiaries are their local currencies, which include the United States Dollar, Euro, Australian Dollar and Pound Sterling. Assets and liabilities are translated based on the exchange rates at the balance sheet date, while revenue and expense accounts are translated at the average exchange rate in effect during the year. Equity accounts are translated at historical exchange rates. The resulting translation gain and loss adjustments are accumulated as a component of other comprehensive income. Foreign currency gains and losses resulting from transactions denominated in foreign currencies, including intercompany transactions, are included in the results of operations.

The Company recorded a net transaction gain of approximately $0.8 million for the year ended December 31, 2023 and a net transaction loss of approximately $0.8 million for the year ended December 31, 2022. Such amounts have been classified within other income (expense) in the accompanying consolidated statements of operations.

**Correction of an Immaterial Error in Previously Issued Financial Statements**

The Company has revised the presentation of segment information presented in Note 15 – *Segment Reporting* for the year ended December 31, 2022 to correct an immaterial error in the presentation of segment net loss and segment loss from operations. This correction increased net loss and loss from operations of the Gaming segment by $1.1 million and decreased the net loss and loss from operations of the Esports segment by the same amount for the year ended December 31, 2022. In addition, the Company has revised certain amounts in Note 11 – *Share-based Compensation* to correct immaterial errors related to the Company's stock option activity for the year ended December 31, 2022.

**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 or revised 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 discussed 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 Instrument", issued by the FASB in June 2016. ASU 2016-13, as amended by ASU 2019-11, requires an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, each reporting entity should estimate an allowance for expected credit losses, which is intended to result in more timely recognition of losses. This model replaces multiple existing impairment models in current U.S. GAAP, which generally require a loss to be incurred before it is recognized. The new standard applies to trade receivables arising from revenue transactions such as contract assets and accounts receivable. Under ASC 606, "Revenue from Contracts with Customers" ("ASC 606") revenue is recognized when, among other 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 life will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. This guidance is effective for smaller reporting companies with annual periods beginning after December 15, 2022, including the interim periods in the year. Early adoption is permitted. 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 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 – Contracts in Entity's Own Equity (Subtopic 815-40) – Accounting for Convertible instruments and Contracts in an Entity's Own Equity*" ("ASU 2020-06"), issued by the FASB in August 2020. The amendments affect entities that issue convertible instruments, as well as contracts in an entity's own equity. For convertible instruments, the instruments primarily affected are those issued with beneficial conversion features or cash conversion features because the accounting models for those specific features are removed. However, all entities that issue convertible instruments are affected by the amendments to the disclosure 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 information 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 the current guidance because of failure to meet the settlement conditions of the derivatives scope exception related to certain requirements of the settlement assessment. ASU 2020-06 simplifies the settlement assessment by removing the requirements (1) to consider whether the contract would be settled in registered shares, (2) to consider whether collateral is required to be posted, and (3) to assess shareholder rights. These amendments also affect 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 economically similar contracts as equity. Additionally, the amendments in ASU 2020-06 affect the diluted earnings per share calculation for instruments that may be settled in 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, 2020, 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 elect to 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 consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The Company adopted ASU 2019-12 on January 1, 2022. Upon adoption, this guidance did not have a material impact on the consolidated financial statements.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following balances as of December 31, 2023 and 2022:

| | December 31, | |
|---|---|---|
| | **2023** | **2022** |
| Furniture and fixtures | $ 17,498 | $ 17,450 |
| Computer software and equipment | 784,355 | 760,887 |
| Leasehold improvements | 160,606 | 146,370 |
| | 962,459 | 924,707 |
| Less: accumulated depreciation | (714,766) | (402,274) |
| Property and equipment, net | $ 247,693 | $ 522,433 |

Depreciation expense was $0.3 million for each of the years ended December 31, 2023 and 2022, respectively.

## NOTE 4 – INTANGIBLE ASSETS

In March 2019, the Company entered into an agreement to facilitate the Le Mans Esports Series as part of a joint venture with Automobile Club de l'Ouest ("ACO"), the organizer of the 24 Hours of Le Mans endurance race. Through the Company's ownership interest in this joint venture, which was increased to 51% from 45% in January 2021, the Company secured the rights to be the exclusive video game developer and publisher for the 24 Hours of Le Mans race and the WEC, which the 24 Hours of Le Mans race is a part of, for a ten-year period. In addition, through this joint venture with ACO, the Company has the right to create and organize esports leagues and events for the Le Mans Esports Series. The Company acquired a video gaming license (the "Le Mans Gaming License") and an esports license (the "Le Mans Esports License") related to its ownership interest in this joint venture with the ACO.

In 2021, the Company also acquired intangible assets comprising the KartKraft computer video game as well as software, tradename and non-compete agreements related to its acquisition of 100% of the share capital of Studio397 B.V.

In October 2023, the Company sold its NASCAR License to iRacing.com Motorsport Simulations, LLC ("iRacing"). As consideration for such sale and assignment of the NASCAR License and all rights related thereto ("the Assignment"), iRacing paid the Company $5.0 million at closing of the transactions contemplated by the Assignment. In addition, iRacing is obligated under the Assignment to pay the Company an additional (i) $0.5 million payable on the date that is 6 months following such closing and (ii) $0.5 million on the earlier of such date when all NASCAR Games have been removed by the Company from the websites, smart phone applications or other digital portal engaging in sales or providing access to the NASCAR Games, including without limitation Xbox, PlayStation and Switch and all other domain names, web addresses and websites used by the Company in the its business (collectively, the "Business Platforms"), or December 31, 2024, provided that all NASCAR Games have been removed by the Company from the Business Platforms; and in any event no earlier than such date that is one (1) year following the closing of the Assignment. In accordance with this sale, the Company recognized a gain of $3.0 million which is included in other income on the consolidated statements of operations for the year ended December 31, 2023.

Impairment – Year Ended December 31, 2023

The Company completed interim impairment assessments for its indefinite-lived intangible assets and long-lived assets, which include the Company's finite-lived intangible assets, for the three-month period ended June 30, 2023, following the identification of triggering events. The primary trigger for the impairment review for the interim period ended June 30, 2023 was the Company's decision to explore strategic alternatives, including, but not limited to, the sale or 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.

The Company's interim impairment assessment as of June 30, 2023 related to its indefinite lived assets, which primarily consisted of the Company's Le Mans Esports License, was performed using a qualitative assessment. Based on this assessment, the Company concluded that it was more likely than not that the fair value of the Le Mans Esports License asset was greater than its carrying value as of June 30, 2023.

For the Company's long-lived asset impairment assessment as of June 30, 2023, the Company compared the estimated undiscounted future cash flows generated by the gaming segment asset group to the carrying amount of the asset group and determined that the undiscounted cash flows were less than the asset group's carrying value on a held and used basis. Therefore, the Company estimated the fair value of the asset group and determined that the fair value of the asset group was less than its carrying value, which indicated impairment. The fair value of the asset group was determined using the present value of cash flows expected to be generated by market participants, discounted at a weighted average cost of capital. As a result, the Company determined the fair value of certain licensing agreements, software and non-compete agreements within the asset group were lower than their respective carrying values and recorded an impairment loss within the Gaming segment of approximately $4.0 million for the interim period ended June 30, 2023. The Company determined the fair value of the finite-lived intangible assets subject to assessment using either a discounted cash flow valuation model or a cost to recreate valuation model, depending on the nature of the asset. The principal assumptions used in the discounted cash flow valuation model were forecasted cash flows and the expected proceeds from the sale of certain assets should the Company be successful in its Strategic Initiatives, while 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 recognized during the interim period ended June 30, 2023 was primarily driven by a reduction in expected future revenues primarily related to the Strategic Initiatives, including changes to the Company's product roadmap, as well as changes to the discount rates applied and assumptions used in the valuation models.

As of December 31, 2023, the Company performed its annual indefinite-lived asset impairment review using a quantitative impairment assessment for its indefinite-lived intangible asset which primarily consisted of the Company's Le Mans Esports License reported in the esports segment. The Company determined the fair value of its the Le Mans Esports License using a discounted cash flow valuation model. The principal assumptions used in the discounted cash flow valuation model used to value the Le Mans Esports License were forecasted revenues and weighted average cost of capital. The Company considers these assumptions to be judgmental and subject to risk and uncertainty, which could result in further changes in subsequent periods. This quantitative assessment indicated no impairment related to the Le Mans Esports License as of December 31, 2023.

For the Company's long-lived asset impairment assessment as of December 31, 2023, the Company compared the estimated undiscounted future cash flows generated by the asset group to the carrying amount of the asset group and determined that the undiscounted cash flows were less than the asset group's carrying value on a held and used basis. Therefore, the Company estimated the fair value of the asset group and determined that the fair value of the asset group exceeded its carrying value, which indicated no impairment. The fair value of the asset group was determined using the present value of cash flows expected to be generated by market participants, discounted at a weighted average cost of capital.

Impairment – Year Ended December 31, 2022

The Company completed interim impairment assessments for its indefinite- and finite-lived intangible assets for the interim periods ended March 31, 2022 and June 30, 2022, following the identification of triggering events, in addition to its annual impairment assessment performed as of December 31, 2022.

As a result of these assessments, the Company determined the carrying value of its rFactor 2 tradename, Le Mans Gaming License and rFactor 2 software technology exceeded their respective fair values, recognizing impairment losses of $2.1 million, $1.1 million and $1.3 million, respectively, within the Gaming segment for the interim period ended March 31, 2022. For the interim period June 30, 2022, the Company recognized additional impairment losses of $0.1 million within the Gaming segment related to the rFactor 2 trade name. An additional $0.2 million of impairment losses with respect of the rFactor 2 trade name was recognized within the Gaming segment at the annual impairment assessment date of December 31, 2022.

For the three months ended March 31, 2022 interim impairment review, the primary triggers were changes made to the Company's product roadmap in the first quarter of the fiscal year ending December 31, 2022, which resulted in changes to the scope and timing of certain product releases, as well as changes in the value of the Company's market capitalization which had reduced significantly since December 31, 2021. These changes were made by the Company to better align the product roadmap with the Company's ability to produce and release high quality games.

For the three months ended June 30, 2022 interim impairment review, the primary triggers were the ongoing reduction in the Company's share price, the receipt of a deficiency letter notice from NASDAQ and the Company's ongoing uncertain liquidity position. No indicators of impairment were identified as of September 30, 2022. The interim period impairment assessments indicated that the carrying value of the rFactor 2 trade name and Le Mans Gaming License indefinite-lived intangible assets, as well as its rFactor 2 finite-lived technology, were lower than their respective carrying values.

As of December 31, 2022, the Company performed its annual indefinite-lived and finite-lived intangible asset impairment reviews, electing to bypass the optional qualitative assessment and performed quantitative impairment assessments for all of its indefinite-lived and finite-lived intangible assets.

The Company determined the fair value of its indefinite-lived intangible assets using a relief-from-royalty method for the trade name, a discounted cash flow valuation model for the Le Mans Gaming License and a cost to recreate valuation model for the finite-lived technology intangible asset. For all impairment assessments performed, the impairment loss for indefinite- and finite-lived intangible assets was primarily driven by a reduction in expected future revenues, following changes to the Company's product roadmap, as well as changes to the discount rates applied, royalty rates and technological obsolescence assumptions used in the valuation models. The principal assumptions used in each of the relief-from-royalty method assessments used to determine the fair value of the rFactor 2 trade name consisted of forecasted revenues, royalty rate and weighted average cost of capital (i.e., the discount rate), while the principal assumptions used in each of the discounted cash flow valuation models used to value the Le Mans Gaming License were forecasted revenues and weighted average cost of capital. The principal assumptions used determining the fair value of the finite-lived technology intangible asset were number of 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 consolidated statements of operations.

The following is a summary of intangible assets as of December 31, 2023 and 2022:

| | Licensing Agreements (Finite) | Licensing Agreements (Indefinite) | Software (Finite) | Distribution Contracts (Finite) | Trade Names (Indefinite) | Non-Compete Agreement (Finite) | Accumulated Amortization | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2022** | **$ 7,198,363** | **$ 2,810,000** | **$ 10,364,541** | **$ 560,000** | **$ 2,672,581** | **$ 257,530** | **$ (3,377,206)** | **$ 20,485,809** |
| Impairment | - | (1,107,054) | (1,320,993) | - | (2,400,431) | - | - | (4,828,478) |
| Amortization | - | - | - | - | - | - | (1,728,955) | (1,728,955) |
| Foreign currency translation adjustment | - | (156,301) | (386,706) | - | (59,965) | (14,287) | 49,113 | (568,146) |
| **Balance as of December 31, 2022** | **7,198,363** | **1,546,645** | **8,656,842** | **560,000** | **212,185** | **243,243** | **(5,057,048)** | **13,360,230** |
| Purchase of intangible assets | 757,500 | - | - | - | - | - | - | 757,500 |
| Impairment | (3,600,720) | - | (487,648) | - | - | (64,927) | 148,668 | (4,004,627) |
| Disposal of intangible assets | (3,446,613) | - | - | - | - | - | 1,157,342 | (2,289,271) |
| Amortization | - | - | - | - | - | - | (1,892,466) | (1,892,466) |
| Foreign currency translation adjustment | (2,364) | (51,130) | (53,257) | - | 11,009 | 1,950 | (41,767) | (135,559) |
| **Balance as of December 31, 2023** | $ 906,166 | $ 1,495,515 | $ 8,115,937 | $ 560,000 | $ 223,194 | $ 180,266 | $ (5,685,271) | $ 5,795,807 |
| Weighted average remaining amortization period at December 31, 2023 | 1.0 | - | 3.3 | - | - | - | - | - |

Accumulated amortization of intangible assets consists of the following:

| | Licensing Agreements | Software | Distribution Contracts | Non-Compete Agreement | Accumulated Amortization |
|---|---|---|---|---|---|
| **Balance as of January 1, 2022** | **$ 912,260** | **$ 1,843,716** | **$ 560,000** | **$ 61,230** | **$ 3,377,206** |
| Amortization expense | 233,750 | 1,416,273 | - | 78,933 | 1,728,956 |
| Foreign currency translation adjustment | - | (47,854) | - | (1,260) | (49,114) |
| **Balance as of December 31, 2022** | **1,146,010** | **3,212,135** | **560,000** | **138,903** | **5,057,048** |
| Amortization expense | 463,439 | 1,387,664 | - | 41,363 | 1,892,466 |
| Impairment | (148,668) | - | - | - | (148,668) |
| Disposals | (1,157,342) | - | - | - | (1,157,342) |
| Foreign currency translation adjustment | (4,901 ) | 46,668 | - | - | 41,767 |
| **Balance as of December 31, 2023** | $ 298,538 | $ 4,646,467 | $ 560,000 | $ 180,266 | $ 5,685,271 |

Estimated aggregate amortization expense of intangible assets for the next five years and thereafter, excluding future amortization on non-amortizing finite-lived intangible assets of $1.7 million, is as follows:

| **For the Years Ending December 31,** | **Total** |
|---|---|
| 2024 | $ 2,059,284 |
| 2025 | 870,962 |
| 2026 | 870,962 |
| 2027 | 98,593 |
| 2028 | 30,711 |
| Thereafter | 146,587 |
| | $ 4,077,099 |

**NOTE 5 - GOODWILL**

The carrying amount of goodwill attributable to our Gaming and esports reporting units and the changes in such balances during the year ended December 31, 2022 were as follows:

| | Games | Esports | Total |
|---|---|---|---|
| Balance as of January 1, 2022 | | | |
| Goodwill | $ 4,802,882 | $ 64,583 | $ 4,867,465 |
| | | | |
| | 4,802,882 | 64,583 | 4,867,465 |
| | | | |
| Impairment loss | (4,723,687) | (64,583) | (4,788,270) |
| Foreign exchange | (79,195) | - | (79,195) |
| Balance as of December 31, 2022 | | | |
| Goodwill | 4,723,687 | 64,583 | 4,788,270 |
| Accumulated impairment loss | (4,723,687) | (64,583) | (4,788,270) |
| | $ - | $ - | $ - |

The Company identified triggering events on March 31, 2022 that indicated its goodwill associated with the acquisition of Studio397 B.V. ("Studio397") was at risk of impairment and as such, performed a quantitative impairment assessment to determine whether the fair value of the associated reporting unit exceeded its fair value. The primary triggers for the impairment review were changes made to Motorsport Games' product roadmap during the three months ended March 31, 2022, which resulted in changes to the scope and timing of certain product releases, as well as changes in the value of Motorsport Games' market capitalization which had reduced significantly subsequent to December 31, 2021, the date of the last impairment assessment.

As a result of the March 31, 2022 interim impairment assessment, the Company determined the carrying value of its Gaming reporting unit exceeded its fair value and the associated goodwill was fully impaired. Impairment losses of approximately $4.8 million have been recorded during the year ended December 31, 2022, reducing the carrying value of the Company's goodwill to $0. As such, no further impairment assessments have been completed subsequent to the March 31, 2022 interim assessment.

The Company determined the fair value of the Gaming reporting unit using a discounted cash flow valuation model. The impairment loss was primarily driven by a reduction in expected future revenues, following changes to the Company's product roadmap, as well as a higher discount rate applied in the valuation model. The principal assumptions used in the discounted cash flow valuation model were forecasted revenues and weighted average cost of capital (i.e., the discount rate).

The impairment loss is presented as impairment of goodwill in the consolidated statements of operations.

**NOTE 6 - LEASES**

The Company's operating leases primarily relate to real estate, which include office space in the United States and the United Kingdom. The Company's leases have established fixed payment terms that are typically subject to annual rent increases throughout the term of each lease agreement. The Company's lease agreements have varying noncancelable rental periods and do not typically include options for the Company to extend the lease terms.

The Company's operating leases have been presented in operating lease right of use assets, operating lease liabilities (current) and operating lease liabilities (non-current), on the Company's consolidated balance sheets as of December 31, 2023, following the Company's adoption of the new leasing standard on January 1, 2022. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. Refer to Note 2 – *Summary of Significant Accounting Policies*, for further information on the adoption of ASC 842.

*Incremental borrowing rate*

The Company's lease agreements do not provide an implicit rate to determine the present value of lease payments. As such, the Company uses its incremental borrowing rate to determine the present value of lease payments. The Company derives its incremental borrowing rate from information available at the lease commencement date, which represents a collateralized rate of interest the Company would have to pay to borrow over a similar term an amount equal to the lease payments in a similar economic environment. As the Company did not have external borrowings at the adoption date with comparable terms to its lease agreements, the Company estimated its borrowing rate based on prime lending rate ("Prime Rate"), adjusted for the U.S. Treasury note rates for the same term as the associated lease and the Company's credit risk spread.

The components of lease expense were as follows:

| | Consolidated Statement of Operations Classification | For the Year Ended December 31, 2023 | For the Year Ended December 31, 2022 |
|---|---|---|---|
| Short-term operating lease expense | G&A | $ 128,809 | $ 145,326 |
| Operating lease expense | G&A | 249,604 | 437,312 |
| Total lease costs | | $ 378,413 | $ 582,638 |

Weighted average remaining lease terms and weighted average discount rates are as follows:

| | For the Year Ended December 31, 2023 |
|---|---|
| Weighted-average remaining lease term - operating leases (years) | 3.18 |
| Weighted-average discount rate - operating leases | 7.5% |

Supplemental cash flow information related to leases is as follows:

| | | For the Year Ended December 31, 2023 |
|---|---|---|
| Cash paid for amounts included in the measurement of operating lease liabilities | $ | 211,698 |

As of December 31, 2023, maturities related to lease liabilities were as follows:

| | | Operating Leases |
|---|---|---|
| 2024 | $ | 154,377 |
| 2025 | | 26,749 |
| 2026 | | 26,506 |
| Total lease payments | $ | 207,632 |
| Less effects of imputed interest | | (8,958) |
| Present value of lease liabilities | $ | 198,674 |

**NOTE 7 – ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consisted of the following:

| | December 31, | | | |
|---|---|---|---|---|
| | | 2023 | | 2022 |
| Accrued royalties | $ | 217,868 | $ | 274,085 |
| Accrued professional fees | | 110,008 | | 693,803 |
| Accrued consulting fees | | - | | 26,667 |
| Accrued development costs | | 32,214 | | 172,164 |
| Esports prize money | | - | | 125,202 |
| Accrued taxes | | 40,000 | | 149,842 |
| Accrued payroll | | 500,522 | | 372,358 |
| Deferred revenue | | 270,845 | | 311,945 |
| Loss contingency reserve (see Note 12) | | 545,920 | | 1,100,000 |
| Accrued other | | 173,938 | | 190,358 |
| Total | $ | 1,891,315 | $ | 3,416,424 |

## NOTE 8 – RELATED PARTY LOANS

The Company has a $12 million line of credit with its majority shareholder, Driven Lifestyle (the “$12 million Line of Credit”), which bears interest at an annual rate of 10%, the availability of which is dependent on Driven Lifestyle’s available liquidity. The $12 million Line of Credit does not have a stated maturity date and is payable upon demand at any time at the sole and absolute discretion of Driven Lifestyle, and any principal and accrued interest owed will be accelerated and become immediately payable in the event the Company consummates certain corporate events, such as a capital reorganization. The Company may repay the $12 million Line of Credit in whole or in part at any time or from time to time without penalty or charge.

On September 8, 2022, the Company entered into a support agreement with Driven Lifestyle (the “Support Agreement”) pursuant to which 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, 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, as prescribed in the Support Agreement, such as the completion of a new financing arrangement or the Company generates positive cash flows 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 two debt-for-equity exchange agreements with Driven Lifestyle on January 30, 2023 and February 1, 2023, relieving the Company of approximately $3.9 million in owed principal and unpaid interest in exchange for an aggregate of 780,385 shares of the Company’s Class A common stock.

As of December 31, 2023, the $12 million Line of Credit remains in place. However, the Company believes that there is a substantial likelihood that Driven Lifestyle will not fulfill any future borrowing requests, and therefore does not view the $12 million Line of Credit as a viable source for future liquidity needs.

As of December 31, 2023 and 2022, the balance due to Driven Lifestyle under the $12 million Line of Credit was $0 and approximately $3.7 million, respectively, as well as unpaid accrued related party interest of $0 and $0.1 million, respectively. These amounts are presented as due to related parties in the consolidated balance sheets.

## NOTE 9 – RELATED PARTY TRANSACTIONS

In addition to the $12 million Line of Credit, the Company had other related party receivables and payables outstanding as of December 31, 2023 and 2022. Specifically, the Company owed approximately $0.1 million to its related parties as a related party payable as of December 31, 2023. The Company owed approximately $0.8 million to its related parties as a related party payable and was due approximately $0.2 million from its related parties as a related party receivable as of December 31, 2022. During the years ended December 31, 2023 and 2022, approximately $0.1 million and $0.2 million, respectively, has been paid to related parties in settlement of related party payables. The Company’s corporate headquarters, located in Miami, Florida, and consisting of approximately 2,000 square feet of office space are owned by Driven Lifestyle and are used rent-free by the Company.

*Backoffice Services Agreement*

On March 23, 2023 (but effective as of January 1, 2023), the Company entered into a new Backoffice Services Agreement with Driven Lifestyle (the “Backoffice Services Agreement”) following the expiration of the Company’s prior services agreement with Driven Lifestyle. Pursuant to the Backoffice Services Agreement, Driven Lifestyle will provide accounting, payroll and benefits, human resources and other back-office services on a full-time basis to support the Company’s business functions. The term of the Backoffice Services Agreement is 12 months from the effective date. The term will 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 then current term. The Backoffice Services Agreement may be terminated by either party at any time with 60 days prior notice. Pursuant to the Backoffice Services Agreement, the Company is required to pay a monthly fee to Driven Lifestyle of $17,500. For the year ended December 31, 2023, the Company incurred $210,000 in fees in connection with the Backoffice Services Agreement, which is presented in general and administrative expenses within the consolidated statements of operations.

## NOTE 10 – STOCKHOLDERS' EQUITY

***Class A and B Common Stock***

As of December 31, 2023, the Company had 2,722,728 shares of Class A common stock and 700,000 shares of Class B common stock outstanding. Holders of 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 a vote of stockholders.

***704Games Warrants***

As of December 31, 2023 and 2022, 704Games LLC ("704Games"), a wholly-owned subsidiary of Motorsport Games Inc., has outstanding 10-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 December 31, 2023, the warrants had no intrinsic value and a remaining life of 18 months.

***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 NASDAQ rules 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 the Agent 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 Class A common stock placed in each Offering (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 |
|---|---|---|---|---|---|---|---|
| Registered direct offering 1 | February 1, 2023 | 183,020 | $ 3.9 million | $ 3.6 million | 10,981 | $ 26.75 | 5 years |
| Registered direct offering 2 | February 2, 2023 | 144,366 | $ 3.4 million | $ 3.1 million | 8,662 | $ 29.38 | 5 years |
| Registered direct offering 3 | February 3, 2023 | 232,188 | $ 4.0 million | $ 3.7 million | 13,931 | $ 21.74 | 5 years |

As of December 31, 2023, the Wainwright Warrants were assessed to have a fair value of approximately $31,000 and deemed to be liability-classified awards, which were recorded within other non-current liabilities on the consolidated balance sheets.

The Company utilized a Black-Scholes Option Pricing Model to determine the fair value of the Wainwright Warrants. The Black-Scholes model requires management 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 rate of return 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 of time that the Wainwright Warrants are expected to be outstanding and is estimated using the contractual term of the Wainwright Warrants.

***Stock Purchase Commitment Agreement***

During the year ended December 31, 2023, the Company issued 175,167 shares of the Company's Class A common stock, with a fair value of $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 9, 2022 with Alumni Capital (the "Alumni Purchase Agreement"). Under the Alumni Purchase Agreement, the Company could have sold Alumni Capital up to $2,000,000 of shares of the Company's Class A common stock, subject to certain restrictions, through the commitment period expiring December 31, 2023. The Alumni Purchase Agreement expired on December 31, 2023.

## NOTE 11 – SHARE-BASED COMPENSATION

### *Summary of Plans and Plan Activity*

On January 12, 2021, in connection with its initial public offering, Motorsport Games established the Motorsport Games Inc. 2021 Equity Incentive Plan (the "MSGM 2021 Stock Plan"). The MSGM 2021 Stock Plan provides for the grant of options, stock appreciation rights, restricted stock awards, performance share awards and restricted stock unit awards, and initially authorized 100,000 shares of Class A common stock to be available for issuance. As of December 31, 2023, 47,291 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.

The Company issued stock options under its MSGM 2021 Stock Plan during the fiscal years ended December 31, 2023 and 2022. 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. Certain stock option awards differed from this vesting schedule, notably awards made to the Company's Chief Executive Officer in conjunction with the Company's initial public 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. All stock options issued under the MSGM 2021 Stock Plan expire 10 years from the grant date.

### *Fair Value Valuation Assumptions*

The fair value of the stock options and stock appreciation rights are estimated using the Black-Scholes option pricing model. The estimation of fair value for these awards is affected by subjective and complex variables, which are typically based on historical information. Judgment is required to determine if historical trends are indicators of future outcomes.

Key assumptions of the Black-Scholes option pricing model are the risk-free interest rate, expected volatility, expected term and expected dividends. The Company determined the risk-free interest rate using U.S. Treasury yields in effect at the time of the grant that matched the expected term of the options. Expected volatility is based on a combination of historical stock price volatility, as well as implied volatilities, of comparable publicly traded companies with operations similar to Motorsport Games over a 10-year period, consistent with the contractual term of the options. The Company calculated the expected term using the simplified method as prescribed by the SEC's Staff Accounting Bulletin, topic 14 ("SAB Topic 14"). This decision was based on the lack of relevant historical data due to the Company's limited historical experience. The dividend yield was zero, as the Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

Share-based compensation expense recognized is based on awards ultimately expected to vest and therefore has been reduced for actual forfeitures occurring within the period.

The following table presents the weighted-average assumptions, weighted average grant date fair value, and the range of expected price volatility:

| | For the Year Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| Risk-free interest rate | 3.35 – 4.62% | 1.50 – 3.82% |
| Expected volatility | 90 - 105% | 60 – 90% |
| Weighted-average volatility | 98% | 64% |
| Expected term | 1 - 5.5 years | 5.5 – 6 years |
| Expected dividends | None | None |
| Weighted-average grant date fair value per share | $ 2.45 | $ 18.85 |

***Stock Options***

The following table summarizes the Company's stock option activity for the fiscal year ended December 31, 2022:

| | Options | Weighted-Average Exercise Prices | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of January 1, 2022 | 55,169 | $ 203.60 | | |
| Granted | 69,988 | 42.27 | | |
| Exercised | - | - | | |
| Forfeited, cancelled or expired | (47,904) | 65.00 | | |
| Outstanding as of December 31, 2022 | 77,253 | $ 143.39 | 8.60 | $ - |
| Vested and expected to vest | 77,253 | $ 143.39 | 8.60 | $ - |
| Exercisable as of December 31, 2022 | 49,805 | $ 179.59 | 8.32 | $ - |

The following table summarizes the Company's stock option activity for the fiscal year ended December 31, 2023:

| | Options | Weighted-Average Exercise Prices | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of January 1, 2023 | 77,253 | $ 143.39 | | |
| Granted | 57,566 | 5.41 | | |
| Exercised | - | - | | |
| Forfeited, cancelled or expired | (60,054) | 155.82 | | |
| Outstanding as of December 31, 2023 | 74,765 | $ 20.68 | 9.26 | $ - |
| Vested and expected to vest | 74,765 | $ 20.68 | 9.26 | $ - |
| Exercisable as of December 31, 2023 | 13,343 | $ 12.54 | 8.33 | $ - |

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 fair value of approximately $0.1 million, which will fully vest on the one-year anniversary of the award issuance date. On November 9, 2023, the Company granted an aggregate of 31,250 stock option awards under the MSGM 2021 Stock Plan to one of its directors with a grant date fair value 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 21,394 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 pursuant to 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 date of the consultancy agreement.

The aggregate intrinsic value represents the total pre-tax intrinsic value based on the Company's closing stock price as of December 31, 2023 and 2022, which would have been received by the option holders had all the option holders exercised their options as of those dates. There were no stock options exercised during the years ended December 31, 2023, and 2022. The Company issues new Class A common stock from its authorized shares upon the exercise of stock options.

***Stock-Based Compensation Expense***

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

| | For the Year Ended December 31, | |
|---|---|---|
| | **2023** | **2022** |
| General and administrative | $ 937,441 | $ 670,080 |
| Sales and marketing | 10,219 | 10,648 |
| Development | 9,642 | 33,795 |
| Stock-based compensation expense | $ 957,302 | $ 714,523 |

As of December 31, 2023, the unrecognized stock-based compensation expense related to equity awards was $87,720, which will be recognized over approximately 2 years.

**NOTE 12 – 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 all pending legal proceedings in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, prospects, results of operations, financial condition 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 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. Litigation or other legal proceedings, with or without merit, is unpredictable and generally expensive and time consuming and, even if resolved in our favor, is likely to divert significant resources from our core business, including distracting our management personnel from their normal responsibilities.

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, 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 or expected to be sought therein.

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 estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency 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 losses, if determinable and material, would be disclosed. The Company recognizes legal costs associated with loss contingencies in the period incurred.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. As of December 31, 2023 and 2022, the Company has recorded approximately $0 and $1.1 million for loss contingencies, respectively.

On February 11, 2021, HC2 Holdings 2 Inc. (now known as Innovate 2) ("Innovate") and Continental General Insurance Company ("Continental"), former minority 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, the Company's former Chief Executive Officer and Executive Chairman, the Company's former Chief Financial Officer, and the manager of Driven Lifestyle. The complaint was later amended and added Leo Capital Holdings LLC ("Leo Capital") as an additional plaintiff and the controller of Driven Lifestyle as an additional individual defendant. The complaint alleges, among other things, purported misrepresentations and omissions concerning 704Games' financial condition made in connection with the Company's purchase of these minority shareholders' interest in 704Games in August and October 2021. The complaint asserts 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 between 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 other 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.

On January 11, 2023, in connection with the HC2 and Continental Complaint, the Company, along with other defendants, entered into a settlement agreement with one of 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 settlement amount of $1.1 million was paid in full. As of December 31, 2023, all required payments under the settlement agreement with Continental have been made.

On October 14, 2023, the Company, along with other defendants, reached and executed a settlement agreement with Leo Capital in connection with the HC2 and Continental Complaint, 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, as required by terms of the settlement agreement.

In respect of Innovate, the Company continues to defend its position and believes the outcome of such defense remains uncertain at this time. As such, 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 settlement liability in respect of the remaining plaintiff.

On July 28, 2023, Wesco Insurance Company ("Wesco") filed a complaint in state court in Florida against the Company, as well as the other defendants involved in the 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 ("Hallmark") and an excess policy with Wesco (the "Wesco Policy"). Wesco's complaint seeks declaratory 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. Wesco claims 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 plans to defend its position.

On November 22, 2023, the Company entered into an insurance policy and claims release with Hallmark (the "Hallmark Settlement") related to a previously submitted Underlying Action for coverage under a management liability policy issued by Hallmark. Under the terms of the Hallmark Settlement, Hallmark agreed to pay $1.75 million, which was fully paid by Hallmark within 30 days of execution of the Hallmark Settlement.

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, which resulted in 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-year licensing agreements that were entered into in connection with the Le Mans Amendment, the Company secured the rights to be the exclusive video game developer and publisher 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 events for 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 €8,000,000 (approximately $8,830,000 USD as of December 31, 2023) as needed for development of the video game products, to be contributed on an as-needed basis during the term of the applicable license. The Company is obligated to pay ACO an annual royalty payment beginning from the time of the launch of the first video game product and continuing through each anniversary thereof for the term of the license. Further, pursuant to the Le Mans Amendment, the Company has a right to priority distribution of profits to recoup the additional funding and royalty payments made by the Company under the Le Mans Gaming License. See Note 4 – *Intangible Assets* for additional information.

Epic Lease 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 computer 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 nonexclusive, non-transferable and terminable license to develop, market and sublicense (under limited circumstances and subject to conditions of the agreement) certain products 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 years ended December 31, 2023 and 2022, Epic earned royalties of approximately $95,000 and $163,000 under the agreement. Pursuant to the terms of the agreement, the Company has the right to actively develop new or existing authorized products during a 5-year period ending on August 11, 2025.

Minimum License Commitments

The Company is required to make certain minimum royalty guarantee payments to third-party licensors, arising primarily from its recently terminated BTCC License and INDYCAR Licenses (each, as defined below).

On May 29, 2020, the Company secured a licensing agreement with BARC (TOCA) Limited ("BARC"), the exclusive promoter of the British Touring Car Championship (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/or racing video gaming products related to, themed as, or containing the BTCC, on consoles, PC and mobile applications, esports series and esports events (including the Company's 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 of $100,000 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 royalties, including certain minimum annual guarantees, on an ongoing basis to BARC and to meet certain product distribution, marketing and related milestones, subject to termination penalties. 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. As of December 31, 2023, the Company had a total remaining liability in connection with the BTCC License, inclusive of the unpaid installments, of $0.9 million, which is included in purchase commitments liabilities on the consolidated balance sheets.

On July 13, 2021, the Company entered into a license agreement (the "INDYCAR Gaming License") with INDYCAR. Pursuant to the INDYCAR Gaming License, INDYCAR granted the Company with a license to use certain licensed intellectual property (described in the INDYCAR Gaming License) for motorsports and/or racing video gaming products related to, themed as, or containing the INDYCAR SERIES. The INDYCAR Gaming License was a long-term agreement, in connection with which the parties intended to form an exclusive relationship for the development of video games to be the official video games of the INDYCAR SERIES. Additionally, the Company and INDYCAR entered into a license agreement pursuant to which, the Company was granted a license to use certain licensed intellectual property described in such license ("Licensed IP") for motorsports and/or racing esports events related to, themed as, or containing the INDYCAR SERIES (including the rFactor 2 platform) (the "INDYCAR Esports License" and together with the INDYCAR Gaming License, the "INDYCAR Licenses"). Upon execution of the INDYCAR Gaming License, the Company recorded a liability and a related intangible asset equal to the present value of the minimum royalty payments due under the agreement. The license intangible asset was impaired during 2023 as discussed further in Note 4 – Intangible Assets. On November 8, 2023, INDYCAR delivered notice to the Company terminating the INDYCAR Licenses. The termination of the INDYCAR Licenses was effective as of November 8, 2023. The notice provided the Company a liquidating damage claim amounting to $2.9 million related to certain minimum payments due under the license agreement. The Company adjusted its liability related to this license agreement as a result of the termination notice which resulted in a gain of $0.6 million for the year ended December 31, 2023, recorded in other income (expense) on the consolidated statements of operations. As of December 31, 2023, the Company had a total remaining liability in connection with the INDYCAR Licenses of $2.9 million, which is included in purchase commitments liabilities on the consolidated balance sheets. As of December 31, 2022, the Company had a total remaining liability in connection with the INDYCAR Licenses of $3.2 million, which is included in other non-current liabilities on the consolidated balance sheets.

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 In Business 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 pursuant to 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 $3.2 million to $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 15, 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 amount is 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 December 31, 2023 was $0.6 million with unpaid accrued interest of $0.3 million.

## NOTE 13 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company establishes valuation allowances against its net deferred tax assets when it is more likely than not that the benefits will not be realized in the foreseeable future.

The components of deferred tax assets and liabilities consist of the following at December 31, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Assets: | | |
| Net operating loss carryforwards | $ 11,287,755 | $ 11,151,879 |
| Bad debts | 127,284 | 1,026,632 |
| Stock options | 939,591 | 747,561 |
| Charitable contribution carryforward | 20,595 | 18,841 |
| Goodwill | 1,104,331 | 1,175,796 |
| Unrealized gain | 70,530 | 254,844 |
| Other intangible assets | 6,578,318 | 1,067,565 |
| Other assets | 89,911 | 33,869 |
| Total Assets | 20,218,315 | 15,476,987 |
| Liabilities: | | |
| Depreciable assets | 21,890 | 19,669 |
| Right-of-use assets | 55,809 | - |
| Total Liabilities | 77,699 | 19,669 |
| | | |
| Net asset before valuation allowance | 20,140,616 | 15,457,318 |
| Valuation allowance | (20,140,616) | (15,457,318) |
| Net deferred tax (liability) asset | $ - | $ - |

A reconciliation between the Company's effective income tax rate and the federal statutory income tax rate for the years ended December 31, 2023 and 2022 is as follows:

| | 2023 | 2022 |
|---|---|---|
| Federal statutory income tax benefit | 21.00% | 21.00% |
| State income taxes, net of federal income tax benefit | 14.96% | 4.50% |
| Permanent differences and other | (0.60)% | (0.18)% |
| Change in valuation allowance | (32.70)% | (22.55)% |
| Other adjustments | (2.66)% | (2.77)% |
| Effective income tax rate | 0.00% | 0.00% |

At December 31, 2023, the Company had United States federal and state net operating loss ("NOL") carryforwards available to reduce future taxable income in the amount of $40.5 million and $42.0 million, respectively, which do not expire due to changes made by the Tax Cuts and Jobs Act. As a result of the 704Games, LLC acquisition during the 2018 tax year, certain pre-change federal and state net operating losses were limited under Section 382 of the Internal Revenue Code and were subject to a valuation allowance to the extent they are not expected to be realized in the foreseeable future.

In assessing whether the Company's deferred tax assets will be realized, management considered whether it was more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the ability to generate future taxable income (including reversals of deferred tax liabilities) during periods in which temporary differences become deductible. A valuation allowance was recognized as of December 31, 2023, as management concluded that it is not more likely than not that the Company will generate sufficient future income to utilize the NOL carryforward and realize the deferred tax assets. The deferred tax valuation allowance for the years ended December 31, 2023 and 2022, increased by $4.7 million and $8.2 million, respectively.

The Company does not have any unrecorded unrecognized tax positions ("UTPs") as of December 31, 2023. While the Company currently does not have any UTPs, it is foreseeable that the calculation of our tax liabilities may involve dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. ASC 740 states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. Upon identification of a UTP, the Company would (1) record the UTP as a liability in accordance with ASC 740 and (2) adjust these liabilities if/when management's judgment changes as a result of the evaluation of new information not previously available. Ultimate resolution of UTPs may produce a result that is materially different from an entity's estimate of the potential liability. In accordance with ASC 740, the Company would reflect these differences as increases or decreases to income tax expense in the period in which new information is available. The Company recognizes and includes interest and penalties accrued on uncertain tax positions as a component of income tax expense.

The Company regularly assesses the likelihood of additional tax assessments by jurisdiction and, if necessary, adjusts its tax reserves based on new information or developments. The Company is not currently under any income tax audits or examinations, however, the tax years 2020-2023 remain open for examination.

**NOTE 14 – CONCENTRATIONS**

<u>Customer Concentrations</u>

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:

| | For the Year Ended December 31, | |
|---|---|---|
| **Customer** | **2023** | **2022** |
| Customer B | 29.4% | 22.5% |
| Customer C | 27.7% | 17.4% |
| Customer D | 25.7% | 21.3% |
| Total | 82.8% | 61.2% |

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

| Customer | December 31 , 2023 | 2022 |
|---|---|---|
| Customer A | *% | 50.5% |
| Customer B | 32.1% | 11.2% |
| Customer C | 34.3% | 15.2% |
| Customer D | 22.3% | 13.1% |
| Total | 88.7% | 90.0% |

*Less than 10%.

A reduction in sales from or loss of these customers, in a significant amount, would have a material adverse effect on the Company's results of operations and 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 | For the Year Ended December 31, 2023 | 2022 |
|---|---|---|
| Supplier A | 21.3% | 16.2% |
| Supplier C | *% | 23.2% |
| Total | 21.3% | 39.4% |

*Less than 10%.

## NOTE 15 – 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 are derived are consistent with the reporting structure of the Company's internal organization. The Company's two reportable segments for the years ended December 31, 2023 and 2022 were (i) the development and publishing of interactive racing video games, entertainment content and services (the "Gaming segment"); and (ii) the organization and facilitation of esports tournaments, competitions and events for the Company's licensed racing games as well as on behalf of third-party video game racing series and other video game publishers (the "esports segment"). The Company's CODM has been identified as the Company's Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon the Company's management organization structure as of December 31, 2023 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed. There are no inter-segment revenue transactions and, therefore, revenues are only to external customers. As the Company primarily generates its revenues from customers in the United States, no 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 internal management reporting system. The accounting policies the Company uses to derive reportable segment results are the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including net revenues, gross profit and operating loss. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. The Company manages certain operating expenses separately at the corporate level and does not allocate such expenses to the segments. Segment income from operations excludes interest income/expense and other income or expenses and income taxes according to how a particular reportable segment's management is measured. Management does not consider impairment charges, and unallocated costs in measuring the performance of the reportable segments.

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

| | For the Year Ended December 31, 2023 | 2022 |
|---|---|---|
| Revenues: | | |
| Gaming | $ 6,619,502 | $ 9,144,639 |
| Esports | 290,172 | 1,179,920 |
| Total Revenues | $ 6,909,674 | $ 10,324,559 |
| | | |
| Cost of Revenues: | | |
| Gaming | $ 3,245,740 | $ 4,080,724 |
| Esports | 374,755 | 879,593 |
| Total Cost of Revenues | $ 3,620,495 | $ 4,960,317 |
| | | |
| Gross Profit (Loss): | | |
| Gaming | $ 3,373,762 | $ 5,063,915 |
| Esports | (84,583) | 300,327 |
| Total Gross Profit | $ 3,289,179 | $ 5,364,242 |
| | | |
| Loss From Operations: | | |
| Gaming | $ (18,859,126) | $ (34,402,894) |
| Esports | (549,979) | (623,510) |
| Total Loss From Operations | $ (19,409,105) | $ (35,026,404) |
| | | |
| Depreciation and Amortization: | | |
| Gaming | $ 349,236 | $ 385,426 |
| Esports | 49,465 | 34,711 |
| Total Depreciation and Amortization | $ 398,701 | $ 420,137 |
| | | |
| Interest Expense, net: | | |
| Gaming | $ (772,989) | $ (1,148,204) |
| Esports | - | - |
| Total Interest Expense, net | $ (772,989) | $ (1,148,204) |
| | | |
| Other Expense (Income), net: | | |
| Gaming | $ 5,858,338 | $ (652,338) |
| Esports | 571 | (13,508) |
| Total Other Expense (Income), net: | $ 5,858,909 | $ (665,846) |
| | | |
| Net Loss: | | |
| Gaming | $ (13,773,777) | $ (36,203,435) |
| Esports | (549,408) | (637,019) |
| Total Net Loss | $ (14,323,185) | $ (36,840,454) |

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Total Assets: | | |
| Gaming | $ 7,892,388 | $ 16,315,359 |
| Esports | 1,866,316 | 2,582,433 |
| Total Assets | $ 9,758,704 | $ 18,897,792 |

**NOTE 16 - SUBSEQUENT EVENTS**

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the consolidated financial statements were issued. Other than as described below, the Company did not identify any subsequent events that would have required adjustments or disclosure in the consolidated financial statements or notes.

On January 26, 2024, the compensation committee of the board of directors of the Company approved and authorized the grant of an option award to purchase 46,000 shares of the Company's Class A common stock to Stephen Hood, the Chief Executive Officer and President of the Company, pursuant to the MSGM 2021 Stock Plan. 11,500 shares underlying the option award vested immediately upon grant and the remaining 34,500 shares underlying the option award will vest in three equal quarterly installments beginning on April 26, 2024.

On February 5, 2024, the Nasdaq Stock Market LLC ("Nasdaq") notified the Company that, based on Nasdaq's review of the Company and the materials submitted by the Company to Nasdaq, Nasdaq's staff has determined to grant the Company an extension to regain compliance with Nasdaq's minimum $2,500,000 stockholders' equity requirement set forth in Listing Rule 5550(b)(1) (the "NCM Equity Rule"), until May 15, 2024, subject to the Company's regaining and evidencing compliance with the NCM Equity Rule by such date. In the event the Company does not regain and evidence compliance with the NCM Equity Rule by May 15, 2024, Nasdaq's staff will provide written notification to the Company that its securities may be subject to delisting. Further, if the Company fails to evidence compliance upon filing its periodic report for June 30, 2024, with the SEC and Nasdaq the Company may be subject to delisting. At that time, the Company may appeal Nasdaq's staff's determination to a Listing Qualifications Panel. The Company plans to regain and evidence compliance with the NCM Equity Rule prior to May 15, 2024. To regain compliance with Nasdaq's minimum $2,500,000 stockholders' equity requirement threshold, the Company plans to negotiate and implement equity financing transactions and negotiate reductions of its licensing liabilities; provided that there can be no assurances that such financing transactions and reductions of its licensing liabilities will be consummated or that they will achieve their intended effects.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed 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 SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded our disclosure controls and procedures were not effective as of December 31, 2023 because of the material weaknesses in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) described below.

***Management's Annual Report on Internal Control Over Financial Reporting***

Our management, under the supervision of our Chief Executive Officer and Interim Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision and with participation of our Chief Executive Officer and Interim Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making its assessment of internal control over financial reporting, our management used the criteria described in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management concluded we did not maintain effective internal control over financial reporting as of December 31, 2023 because of the material weaknesses identified below.

Our independent registered public accounting firm will not be required to issue an attestation report on our internal control over financial reporting until we are no longer an emerging growth company (as defined in the JOBS Act) and a non-accelerated filer.

Material Weaknesses

A 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.

We did not design and maintain effective monitoring procedures and controls to evaluate and monitor the effectiveness of our individual control activities. This material weakness was also identified in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2021 and 2022 and has not yet been remediated. 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, which also has not yet been remediated. These material weaknesses could result in misstatements to our account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation

We are actively engaged in the design and implementation of remedial measures to address the material weaknesses in our internal control over financial reporting. We are committed to improving our internal control processes and resolving our control deficiencies, including the material weaknesses identified above.

To date, we have taken and will continue to take the actions described below to remediate the identified material weaknesses. As the remediation efforts are ongoing, we will continue to evaluate and work to improve our internal control over financial reporting and may implement additional measures, or modify the remedial actions described below, as considerate appropriate, to remediate the identified material weaknesses.

Steps taken to remediate the remaining material weaknesses related to designing and maintaining effective monitoring procedures and controls to evaluate and monitor the effectiveness of our individual control activities, such as formal independent review processes and minimum documentation requirements for significant accounting positions and management estimates, including consideration of underlying assumptions and judgments, where applicable, that are used in the financial statement preparation and reporting process. We also hired an additional finance and accounting employee with appropriate experience, certification, education and training in August 2023.

The Company continues to evaluate the design and operating effectiveness of internal controls across various business processes and accordingly, our management plans to continue its efforts to remediate the identified material weaknesses and remains committed to improving our internal control processes, activities and resolving identified deficiencies.

***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 Rules 13a-15(d) and 15d-15(d) under the Exchange Act during the fourth quarter ended December 31, 2023, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

**Rule 10b5-1 Trading Plans**

During the three months ended December 31, 2023, none of our directors or officers (as defined in Exchange Act Rule 16a-1(f)) adopted or terminated a "Rule 10b5–1 trading arrangement" or a "non-Rule 10b5–1 trading arrangement," each as defined in Item 408 of Regulation S-K.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.