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OURGAME INTERNATIONAL HOLDINGS LIMITED

聯眾國際控股有限公司*

(a company incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 6899)

OVERSEAS REGULATORY ANNOUNCEMENT — FORM 10-Q

This announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Please refer to the attached for the document which has been published by Allied Esports Entertainment, Inc. on the website of the U.S. Securities and Exchange Commission on 16 August 2021 (U.S. time).

By order of the Board

Ourgame International Holdings Limited

Lu Jingsheng

Chief Executive Officer and Executive Director

Beijing, 17 August 2021

As at the date of this announcement, the Board comprises Mr. Li Yangyang and Mr. Lu Jingsheng as executive Directors; Mr. Liu Jiang, Mr. Liu Xueming and Ms. Wu (Claire) Libing as non-executive Directors; and Mr. Ma Shaohua and Mr. Zhang Li as independent non-executive Directors.

* *For identification purpose only*

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

FORM 10-Q

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

For the quarterly period ended June 30, 2021

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

For the transition period from _____ to _____

Commission file number: 001-38226

ALLIED ESPORTS ENTERTAINMENT INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

82-1659427

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

17877 Von Karman Avenue, Suite 300
Irvine, California, 92614
(Address of principal executive offices)

(949) 225-2600
(Issuer's telephone number)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	AESE	NASDAQ

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of August 12, 2021, 39,219,502 shares of common stock, par value \$0.0001 per share, were issued and outstanding.

ALLIED ESPORTS ENTERTAINMENT, INC

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ALLIED ESPORTS ENTERTAINMENT, INC

Condensed Consolidated Balance Sheets

	June 30, 2021	December 31, 2020
	(unaudited)	
Assets		
Current Assets		
Cash	\$ 7,689,991	\$ 424,223
Restricted cash	5,000,000	5,000,000
Accounts receivable	356,722	271,142
Prepaid expenses and other current assets	328,009	909,766
Assets held for sale	49,518,037	45,363,817
Total Current Assets	<u>62,892,759</u>	<u>51,968,948</u>
Property and equipment, net	7,684,002	9,275,729
Intangible assets, net	29,820	30,818
Deposits	625,000	625,000
Total Assets	<u>\$ 71,231,581</u>	<u>\$ 61,900,495</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 844,723	\$ 901,353
Deposit for sale of WPT	10,000,000	-
Accrued expenses and other current liabilities	2,531,138	1,987,017
Accrued interest, current portion	360,747	152,899
Due to affiliates	12,202,681	9,433,975
Deferred revenue	203,477	57,018
Bridge note payable	1,421,096	1,421,096
Convertible debt, net of discount, current portion	1,000,000	1,000,000
Convertible debt, related party, net of discount, current portion	1,000,000	1,000,000
Loans payable, current portion	907,129	539,055
Liabilities held for sale	9,865,701	9,169,247
Total Current Liabilities	<u>40,336,692</u>	<u>25,661,660</u>
Deferred rent	2,015,646	1,693,066
Accrued interest, non-current portion	-	193,939
Convertible debt, net of discount, non-current portion	-	578,172
Loans payable, non-current portion	-	368,074
Total Liabilities	<u>42,352,338</u>	<u>28,494,911</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value; 100,000,000 shares authorized, 39,162,811 and 38,506,844 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	3,917	3,851
Additional paid in capital	197,180,610	195,488,181
Accumulated deficit	(168,554,170)	(162,277,414)
Accumulated other comprehensive income	248,886	190,966
Total Stockholders' Equity	<u>28,879,243</u>	<u>33,405,584</u>
Total Liabilities and Stockholders' Equity	<u>\$ 71,231,581</u>	<u>\$ 61,900,495</u>

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

ALLIED ESPORTS ENTERTAINMENT, INC

**Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
In-person	\$ 670,886	\$ 620,462	\$ 1,171,914	\$ 1,678,203
Multiplatform content	153,723	-	153,723	-
Total Revenues	824,609	620,462	1,325,637	1,678,203
Costs and Expenses:				
In-person (exclusive of depreciation and amortization)	655,243	507,112	1,193,110	1,494,555
Multiplatform content (exclusive of depreciation and amortization)	126,885	-	126,885	-
Online operating expenses	56,228	52,693	96,547	114,400
Selling and marketing expenses	84,739	56,489	128,673	132,216
General and administrative expenses	2,895,509	2,316,243	6,125,064	5,769,340
Stock-based compensation	386,994	274,589	1,030,142	4,221,375
Depreciation and amortization	807,843	910,330	1,689,802	1,809,427
Impairment of investment in ESA	-	1,138,631	-	1,138,631
Total Costs and Expenses	5,013,441	5,256,087	10,390,223	14,679,944
Loss From Operations	(4,188,832)	(4,635,625)	(9,064,586)	(13,001,741)
Other Income (Expense):				
Other (expense) income, net	(40,163)	(257)	14,979	(2,459)
Conversion inducement expense	-	(5,247,531)	-	(5,247,531)
Interest expense	(104,496)	(862,067)	(257,602)	(1,545,007)
Total Other Expense	(144,659)	(6,109,855)	(242,623)	(6,794,997)
Loss from continuing operations	(4,333,491)	(10,745,480)	(9,307,209)	(19,796,738)
Income (loss) from discontinued operations, net of tax provision	1,393,411	(135,249)	3,030,453	139,540
Net loss	\$ (2,940,080)	\$ (10,880,729)	\$ (6,276,756)	\$ (19,657,198)
Basic and Diluted Net (Loss) Income per Common Share				
Continuing operations	\$ (0.11)	\$ (0.41)	\$ (0.24)	\$ (0.79)
Discontinued operations, net of tax	\$ 0.04	\$ (0.01)	\$ 0.08	\$ 0.01
Weighted Average Number of Common Shares Outstanding:				
Basic and Diluted	38,963,668	26,206,173	38,744,107	25,012,157
Comprehensive Loss				
Net Loss	(2,940,080)	(10,880,729)	(6,276,756)	(19,657,198)
Other comprehensive income:				
Foreign currency translation adjustments	32,584	190	57,920	190
Total Comprehensive Loss	\$ (2,907,496)	\$ (10,880,539)	\$ (6,218,836)	\$ (19,657,008)

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

ALLIED ESPORTS ENTERTAINMENT, INC

**Condensed Consolidated Statements of Changes in Stockholders' Equity
(unaudited)**

For The Three and Six Months Ended June 30, 2021

	<u>Common Stock</u>		<u>Common Stock Subscribed</u>		<u>Additional Paid-in Capital</u>	<u>Subscription Receivable</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance - January 1, 2021	38,506,844	\$ 3,851	-	\$ -	\$ 195,488,181	\$ -	\$ 190,966	\$ (162,277,414)	\$ 33,405,584
Stock-based compensation:									
Common stock	126,584	13	-	-	199,987	-	-	-	200,000
Restricted common stock	-	-	-	-	80,006	-	-	-	80,006
Stock options	-	-	-	-	282,999	-	-	-	282,999
Shares issued for redemption of debt and accrued interest	529,383	53	-	-	821,814	-	-	-	821,867
Net loss	-	-	-	-	-	-	-	(3,336,676)	(3,336,676)
Other comprehensive income	-	-	-	-	-	-	25,336	-	25,336
Balance - March 31, 2021	39,162,811	3,917	-	-	196,872,987	-	216,302	(165,614,090)	31,479,116
Stock-based compensation:									
Stock options	-	-	-	-	226,698	-	-	-	226,698
Restricted stock	-	-	-	-	80,925	-	-	-	80,925
Net loss	-	-	-	-	-	-	-	(2,940,080)	(2,940,080)
Other comprehensive income	-	-	-	-	-	-	32,584	-	32,584
Balance - June 30, 2021	<u>39,162,811</u>	<u>\$ 3,917</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 197,180,610</u>	<u>\$ -</u>	<u>\$ 248,886</u>	<u>\$ (168,554,170)</u>	<u>\$ 28,879,243</u>

For The Three and Six Months Ended June 30, 2020

	<u>Common Stock</u>		<u>Common Stock Subscribed</u>		<u>Additional Paid-in Capital</u>	<u>Subscription Receivable</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance - January 1, 2020	23,176,146	\$ 2,317	-	\$ -	\$ 161,300,916	\$ -	\$ 136,177	\$ (117,218,584)	\$ 44,220,826
Common stock issued for cash	758,725	76	-	-	4,999,924	-	-	-	5,000,000
Stock-based compensation:									
Restricted common stock	-	-	-	-	113,436	-	-	-	113,436
Stock options	-	-	-	-	240,399	-	-	-	240,399
Subscription of common stock in connection with exercise of put option	-	-	1,018,848	102	1,999,898	(2,000,000)	-	-	-
Net loss	-	-	-	-	-	-	-	(8,776,469)	(8,776,469)
Other comprehensive loss	-	-	-	-	-	-	-	-	-
Balance - March 31, 2020	23,934,871	2,393	1,018,848	102	168,654,573	(2,000,000)	136,177	(125,995,053)	40,798,192
Cash received for subscription	1,018,848	102	(1,018,848)	(102)	-	2,000,000	-	-	2,000,000
Shares issued upon conversion of debt	3,392,857	339	-	-	9,998,506	-	-	-	9,998,845
Beneficial	-	-	-	-	523,636	-	-	-	523,636

conversion feature associated with convertible debt										
Warrants issued with convertible debt	-	-	-	-	1,205,959	-	-	-	-	1,205,959
Stock-based compensation:										
Stock options	-	-	-	-	213,763	-	-	-	-	213,763
Restricted stock	-	-	-	-	117,875	-	-	-	-	117,875
Net loss	-	-	-	-	-	-	-	(10,880,729)	(10,880,729)	
Other comprehensive income	-	-	-	-	-	-	190	-	-	190
Balance - June 30, 2020	<u>28,346,576</u>	<u>\$ 2,834</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 180,714,312</u>	<u>\$ -</u>	<u>\$ 136,367</u>	<u>\$ (136,875,782)</u>	<u>\$ 43,977,731</u>	

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

ALLIED ESPORTS ENTERTAINMENT, INC

Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the Six Months Ended	
	June 30,	
	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Net loss	\$ (6,276,756)	\$ (19,657,198)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from discontinued operations, net of tax provision	(3,030,453)	(139,540)
Stock-based compensation	1,030,142	4,221,375
Conversion inducement expense	-	5,247,531
Change in fair value of warrant liabilities	11,000	-
Amortization of debt discount	3,646	414,441
Non-cash interest expense	46,110	-
Expenses paid on behalf of WPT	(136,329)	(203,656)
Depreciation and amortization	1,689,802	1,809,427
Impairment of investment in ESA	-	1,138,631
Deferred rent	173,661	56,219
Changes in operating assets and liabilities:		
Accounts receivable	(86,219)	494,836
Deposits	-	7,963
Prepaid expenses and other current assets	578,408	649,952
Accounts payable	(55,095)	(23,628)
Accrued expenses and other current liabilities	387,352	499,358
Accrued interest	207,848	(424,140)
Due to affiliates	2,618,212	2,231,559
Deferred revenue	146,459	(43,791)
Total Adjustments	<u>3,584,544</u>	<u>15,936,537</u>
Net Cash Used In Operating Activities	<u>(2,692,212)</u>	<u>(3,720,661)</u>
Cash Flows From Investing Activities		
Deposit for sale of WPT	10,000,000	-
Return of Simon investment	-	(3,650,000)
Investment in TV Azteca	-	(1,500,000)
Purchases of property and equipment	(116,058)	(343,118)
Net Cash Provided By (Used in) Investing Activities	<u>9,883,942</u>	<u>(5,493,118)</u>
Cash Flows From Financing Activities		
Proceeds from loans payable	-	907,129
Proceeds from convertible debt	-	9,000,000
Issuance costs paid in connection with convertible debt	-	(766,961)
Repayments of convertible debt	-	(7,000,000)
Proceeds from sale of common stock	-	7,000,000
Net Cash Provided By Financing Activities	<u>-</u>	<u>9,140,168</u>

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

ALLIED ESPORTS ENTERTAINMENT, INC

**Condensed Consolidated Statements of Cash Flows
(unaudited)**

	For the Six Months Ended June 30,	
	2021	2020
Cash Flows From Discontinued Operations		
Operating activities	511,577	636,569
Investing activities	(17,260)	882,898
Financing activities	-	685,300
Change in cash included in discontinued operations	(494,317)	(2,204,767)
Net Cash Provided By Discontinued Operations	-	-
Effect of Exchange Rate Changes on Cash	74,038	795
Net Increase (Decrease) In Cash And Restricted Cash	7,265,768	(72,816)
Cash and restricted cash - Beginning of period	5,424,223	6,927,417
Cash and restricted cash - End of period	<u>\$ 12,689,991</u>	<u>\$ 6,854,601</u>
Cash and restricted cash consisted of the following:		
Cash	\$ 7,689,991	\$ 1,854,601
Restricted cash	5,000,000	5,000,000
	<u>\$ 12,689,991</u>	<u>\$ 6,854,601</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest	\$ -	\$ -
Non-Cash Investing and Financing Activities:		
Original issue discount on convertible debt	\$ -	\$ 600,000
Beneficial conversion feature associated with convertible debt	\$ -	\$ 523,636
Warrants issued with convertible debt	\$ -	\$ 1,205,959
Guaranteed interest on convertible debt recorded as debt discount	\$ -	\$ 1,536,000
Shares issued upon conversion of debt and accrued interest	\$ 821,867	\$ 5,000,000
Interest payable on Bridge Note converted to principal	\$ -	\$ 1,421,096

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

ALLIED ESPORTS ENTERTAINMENT, INC

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 – Business Organization and Nature of Operations

Allied Esports Entertainment Inc., (“AESE” or “the Company”), operates a public esports and entertainment company, consisting of the Allied Esports and World Poker Tour businesses. Allied Esports operates through its wholly owned subsidiaries Allied Esports International, Inc., (“AEII”), Esports Arena Las Vegas, LLC (“ESALV”) and ELC Gaming GMBH (“ELC Gaming”). AEII operates global competitive esports properties designed to connect players and fans via a network of connected arenas. ESALV operates a flagship gaming arena located at the Luxor Hotel in Las Vegas, Nevada. ELC Gaming operates a mobile esports truck that serves as both a battleground and content generation hub and also operates a studio for recording and streaming gaming events. AESE’s wholly owned subsidiaries, Peerless Media Limited, Club Services, Inc. (“CSI”) and WPT Enterprises, Inc., operate the poker-related business of AESE and are collectively referred to herein as “World Poker Tour” or “WPT”. The World Poker Tour is an internationally televised gaming and entertainment company that has been involved in the sport of poker since 2002 and created a television show based on a series of high-stakes poker tournaments.

On January 19, 2021, the Company entered into a stock purchase agreement (as amended and restated, the “SPA”) for the sale of 100% of the capital stock of its wholly-owned subsidiary, CSI. CSI owns 100% of each of the legal entities which comprise the World Poker Tour. On July 12, 2021, the Company consummated the sale of the World Poker Tour business (see Note 11 – Subsequent Events for additional information).

As the result of the Company’s entry into the SPA, the Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, the Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2021 and 2020, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020, present the results and accounts of World Poker Tour as discontinued operations and the related assets and liabilities are presented as held for sale. See Note 4 – Discontinued Operations.

Note 2 – Liquidity and Financial Condition

As of June 30, 2021, the Company had cash of \$7.7 million (not including approximately \$5.0 million of restricted cash and approximately \$4.1 million of cash held for sale and included in current assets held for sale) and a working capital deficit (defined as total current assets of continuing operations less total current liabilities of continuing operations) of approximately \$17.0 million. For the six months ended June 30, 2021 and 2020, the Company incurred net losses from continuing operations of approximately \$9.3 million and \$19.8 million, respectively, and has cash flows used in continuing operations of approximately \$2.7 million and \$3.7 million, respectively.

As of June 30, 2021, the Company had convertible debt and bridge note obligations in the aggregate gross principal amount of \$3.4 million (see Note 6 - Convertible Debt and Note 7 – Bridge Note Payable), which mature on February 23, 2022 but were paid upon the closing of the sale of WPT (see Note 11 – Subsequent Events).

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic which continues to spread throughout the United States. As a global entertainment company that hosts numerous live events with spectators and participants in destination cities, the outbreak has caused people to avoid traveling to and attending these events. Allied Esports’ has cancelled or postponed live events, and before the reopening of Allied Esports’ flagship gaming arena located at the Luxor Hotel in Las Vegas, Nevada on June 25, 2020, the business was operating online only. The arena is currently running at full capacity for daily play and weekly tournaments. The Company is continuing to monitor the outbreak of COVID-19 and the related business and travel restrictions, and changes to behavior intended to reduce its spread, and the related impact on the Company’s operations, financial position and cash flows, as well as the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Company’s future operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Company, at the time of issuance, the extent of the impact cannot be determined.

ALLIED ESPORTS ENTERTAINMENT, INC

**Notes to Condensed Consolidated Financial Statements
(unaudited)**

The Company's continuation is dependent upon attaining and maintaining profitable operations and, until that time, raising additional capital as needed and utilizing the cash proceeds of its recent sale of the WPT business. On July 12, 2021, the Company completed the sale of the WPT business for an aggregate purchase price of \$106.2 million (see Note 11 – Subsequent Events). With the sale of the WPT business, the Company believes its current cash on hand is sufficient to meet its operating and capital requirements for at least the next twelve months from the date these financial statements are issued.

Note 3 – Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies as set forth in the Company's audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2020, except as disclosed in this note.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for annual consolidated financial statements. For additional information, these condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements of and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on April 13, 2021.

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments which are considered necessary for a fair presentation of the unaudited condensed consolidated financial statements of the Company as of June 30, 2021, and for the three and six months ended June 30, 2021 and 2020. The results of operations for the six months ended June 30, 2021 are not necessarily indicative of the operating results for the full year ending December 31, 2021 or any other period. These unaudited condensed consolidated financial statements have been derived from the accounting records of AESE, WPT and Allied Esports and should be read in conjunction with the accompanying notes thereto.

Net Loss per Common Share

Basic loss per common share is computed by dividing net loss attributable to the Company by the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding, plus the impact of common shares, if dilutive, resulting from the exercise of outstanding stock options and warrants and the conversion of convertible instruments.

ALLIED ESPORTS ENTERTAINMENT, INC

**Notes to Condensed Consolidated Financial Statements
(unaudited)**

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

	As of June 30,	
	2021	2020
Restricted common shares	199,143	-
Options	2,552,500	2,280,000
Warrants	20,091,549	20,091,549
Convertible debt	235,294	3,609,839
Equity purchase options	600,000	600,000
Contingent consideration shares	269,231	269,231
	23,947,717	26,850,619

Warrant Liabilities

Entities must consider whether to classify contracts that may be settled in its own stock, such as warrants, as equity of the entity or as an asset or liability. If an event that is not within the entity’s control could require net cash settlement, then the contract should be classified as an asset or a liability rather than as equity.

- Management has determined that its publicly-traded warrants (the “public warrants”) are of a form that qualify for equity classification.
- Management has determined that the warrants previously issued to the Company’s sponsor (the “sponsor warrants”) contain provisions that change depending on who holds the sponsor warrant. If the sponsor warrants are held by someone other than the initial purchasers or their permitted transferees, the sponsor warrants will be redeemable by the Company and exercisable by such holders on the same basis as the public warrants. This feature precludes the sponsor warrants from being indexed to the Company’s common stock, and thus the sponsor warrants are classified as a liability measured at fair value, with changes in fair value each period reported in earnings.
- Management has determined that the common stock purchase warrants issued by the Company on June 8, 2020 in connection with the issuance of convertible notes (the “convertible note warrants”) are of a form that qualify for equity classification.

As of June 30, 2021 and December 31, 2020, the fair value of our warrant liabilities totaled \$14,000 and \$3,000, respectively, which are included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet. See Note 5 – Accrued Expenses and Other Current Liabilities.

Financial Instruments and Fair Value

Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities;
- Level 2 Quoted market prices for identical assets or liabilities in an active market that have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets or liabilities; and
- Level 3 Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

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This hierarchy requires management to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The carrying amounts of the Company's financial instruments, such as accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. The Company's convertible debt, bridge notes and loans payable approximates fair value due to their short-term nature and market rate of interest.

The sponsor warrants are carried at fair value as of June 30, 2021 and December 31, 2020. The sponsor warrants are valued using level 3 inputs. The fair value of the sponsor warrants is estimated using the Black-Scholes option pricing method. Specifically, we assumed a term for the sponsor warrants equal to the contractual term from the August 9, 2019 business combination date. Significant level 3 inputs used to calculate the fair value of the sponsor warrants include the share price on the valuation date, expected volatility, expected term and the risk-free interest rate.

The following is a roll forward of the Company's Level 3 instruments:

Balance, December 31, 2020	\$ 3,000
Change in fair value of sponsor warrants	36,300
Balance, March 31, 2021	39,300
Change in fair value of sponsor warrants	(25,300)
Balance, June 30, 2021	\$ 14,000

The key inputs into the Black-Scholes model at the relevant measurement dates were as follows:

Input	June 30, 2021	December 31, 2020
Risk-free rate	0.46%	0.27%
Remaining term in years	3.11	3.61
Expected volatility	45.0%	42.0%
Exercise price	\$ 11.50	\$ 11.50
Fair value of common stock	\$ 2.30	\$ 1.58

Revenue Recognition

To determine the proper revenue recognition method, the Company evaluates each of its contractual arrangements to identify its performance obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The majority of the Company's contracts have a single performance obligation because the promise to transfer the individual good or service is not separately identifiable from other promises within the contract and is therefore not distinct. Some of the Company's contracts have multiple performance obligations, primarily related to the provision of multiple goods or services. For contracts with more than one performance obligation, the Company allocates the total transaction price in an amount based on the estimated relative standalone selling prices underlying each performance obligation.

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Revenue recognized from continuing operations during the three and six months ended June 30, 2021 and 2020 was from the following sources:

In-person revenue

The Company's in-person revenue is comprised of event revenue, sponsorship revenue, merchandising revenue and other revenue. Event revenue is generated through Allied Esports events held at the Company's esports properties. Event revenues recognized from the rental of the Allied Esports arena and gaming trucks are recognized at the point in time when the event occurs. In-person revenue also includes revenue from ticket sales, admission fees and food and beverage sales for events held at the Company's esports properties. Ticket revenue is recognized at the completion of the applicable event. Point of sale revenues, such as food and beverage, gaming and merchandising revenues, are recognized when control of the related goods are transferred to the customer.

The Company also generates sponsorship revenues for naming rights for, and rental of, the Company's arena and gaming trucks. Sponsorship revenues from naming rights of the Company's Las Vegas esports arena and from sponsorship arrangements are recognized on a straight-line basis over the contractual term of the agreement. The Company records deferred revenue to the extent that payment has been received for services that have yet to be performed.

In-person revenue was comprised of the following for the three and six months ended June 30, 2021 and 2020:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Event revenue	\$ 307,470	\$ 62,625	\$ 417,911	\$ 286,072
Sponsorship revenue	129,237	544,935	373,531	990,090
Food and beverage revenue	100,104	-	170,808	232,299
Ticket and gaming revenue	129,311	12,564	197,955	151,251
Merchandising revenue	4,664	338	11,609	18,387
Other revenue	100	-	100	104
Total in-person revenue	\$ 670,886	\$ 620,462	\$ 1,171,914	\$ 1,678,203

Multiplatform content revenue

The Company's multiplatform content revenue is comprised of distribution revenue. Distribution revenue is generated primarily through the development, promotion, and execution of Esports Tournaments covering multiple, Company-approved game titles. The Company recognizes distribution revenue pursuant to the terms of each individual contract with the customer and records deferred revenue to the extent the Company received a payment for services that have yet to be performed or products that have yet to be delivered. The Company recorded multiplatform content revenue of \$153,723 for the three and six months ended June 30, 2021 and \$0 for the three and six months ended June 30, 2020.

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The following table summarizes our revenue recognized in our condensed consolidated statements of operations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	Revenues Recognized at a Point in Time:			
Event revenue	\$ 307,470	\$ 62,625	\$ 417,911	\$ 286,072
Distribution revenue	153,723	-	153,723	-
Food and beverage revenue	100,104	-	170,808	232,299
Ticket and gaming revenue	129,311	12,564	197,955	151,251
Sponsorship revenue	-	2,502	-	2,502
Merchandising revenue	4,664	338	11,609	18,387
Other revenue	100	-	100	104
Total Revenues Recognized at a Point in Time	695,372	78,029	952,106	690,615
Revenues Recognized Over a Period of Time:				
Sponsorship revenue	129,237	542,433	373,531	987,588
Total Revenues Recognized Over a Period of Time	129,237	542,433	373,531	987,588
Total Revenues	\$ 824,609	\$ 620,462	\$ 1,325,637	\$ 1,678,203

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 performance obligations are satisfied.

Concentration Risks

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash accounts in a financial institution which, at times, may exceed Federal Deposit Insurance Corporation insured limits. The Company has not experienced any losses in such accounts, periodically evaluates the creditworthiness of the financial institutions and has determined the credit exposure to be negligible.

During the three months ended June 30, 2021 and 2020, 5% and 13%, respectively, of the Company's revenues from continuing operations were from customers in foreign countries. During the six months ended June 30, 2021 and 2020, 7% and 14%, respectively, of the Company's revenues from continuing operations were from customers in foreign countries.

During the three months ended June 30, 2021, the Company's two largest customers accounted for 18% and 14% of the Company's consolidated revenues from continuing operations. During the six months ended June 30, 2021, the Company's two largest customers accounted for 22% and 17% of the Company's consolidated revenues from continuing operations. During the three months ended June 30, 2020, the Company's two largest customers accounted for 64% and 20% of the Company's consolidated revenues from continuing operations. During the six months ended June 30, 2020, the Company's two largest customers accounted for 57% and 19% of the Company's consolidated revenues from continuing operations.

Foreign Currency Translation

The Company's reporting currency is the United States Dollar. The functional currencies of the Company's operating subsidiaries are their local currencies (United States Dollar and Euro). Euro-denominated assets and liabilities are translated into the United States Dollar using the exchange rate at the balance sheet date (1.1878 and 1.2264, at June 30, 2021 and December 31, 2020, respectively), and revenue and expense accounts are translated using the weighted average exchange rate in effect for the period (1.2050 and 1.1017 for the six months ended June 30, 2021 and 2020, respectively). Resulting translation adjustments are made directly to accumulated other comprehensive (loss) income.

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Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements, except as disclosed.

Discontinued Operations

The assets and liabilities of WPT are classified as “held for sale” as of June 30, 2021 and December 31, 2020 and are reflected in the accompanying condensed consolidated balance sheets as “Assets held for sale” and “Liabilities held for sale,” respectively. The results of operations of WPT are included in “Income (loss) from discontinued operations, net of tax provision” in the accompanying condensed consolidated statements of operations and comprehensive loss. For comparative purposes, all prior periods presented have been reclassified to reflect the classifications on a consistent basis.

Reclassifications

Certain prior year balances have been reclassified in order to conform to current year presentation. These reclassifications have no effect on previously reported results of operations or loss per share.

Recently Issued Accounting Pronouncements

On May 3, 2021, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options. This new standard provides clarification and reduces diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. This standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Issuers should apply the new standard prospectively to modifications or exchanges occurring after the effective date of the new standard. Early adoption is permitted, including adoption in an interim period. If an issuer elects to early adopt the new standard in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes that interim period. The Company is evaluating this new standard.

Recently Adopted Accounting Pronouncements

In March 2019, the FASB issued ASU 2019-02, which aligns the accounting for production costs of episodic television series with the accounting for production costs of films. In addition, ASU 2019-02 modifies certain aspects of the capitalization, impairment, presentation and disclosure requirements in Accounting Standards Codification (“ASC”) 926-20 and the impairment, presentation and disclosure requirements in ASC 920-350. This ASU must be adopted on a prospective basis and is effective for annual periods beginning after December 15, 2020, including interim periods within those years, with early adoption permitted. This standard was adopted on January 1, 2021 and did not have a material impact on the Company’s condensed consolidated financial statements or disclosures.

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In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The Company adopted ASU 2019-12 effective for January 1, 2021 and its adoption did not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

Note 4 – Discontinued Operations

Transaction

During the first quarter of 2021, AESE entered into the SPA to sell the equity interests of its subsidiaries that own and operate its WPT business (the “Sale Transaction”), subject to shareholder and regulatory approvals, for a total purchase price of \$105 million. This base purchase price will be adjusted to reflect the amount of CSI’s cash, indebtedness and accrued and unpaid transaction expenses as of the closing of the Sale Transaction. Prior to December 31, 2020, management committed to a plan to sell the WPT business. Accordingly, the WPT business has been recast as discontinued operations, and the assets and liabilities of WPT are classified as held for sale. See Note 1 – Business Organization and Nature of Operations.

In reaching its decision to enter into the SPA, the Company’s Board of Directors, in consultation with management as well as its financial and legal advisors, considered a number of factors, including the risks and challenges facing the WPT business in the future as compared to the opportunities available to the WPT business in the future, and the availability of strategic alternatives. After careful consideration, the Board of Directors unanimously approved the SPA and determined that the Sale Transaction is in the best interests of the Company and its stockholders, and that the Sale Transaction and the SPA reflect the highest value for the WPT business reasonably attainable for the Company’s stockholders. On July 12, 2021, the Company consummated the sale of the WPT business (see Note 11 – Subsequent Events for additional information).

About WPT

WPT is an internationally televised gaming and entertainment company with brand presence in land-based tournaments, television, online and mobile applications. WPT has been involved in the sport of poker since 2002 and created a television show based on a series of high-stakes poker tournaments. WPT has broadcasted globally in more than 150 countries and territories and its shows are sponsored by established brands in many areas, including watches, crystal, playing cards and online social poker operators. WPT also operates ClubWPT.com, a subscription-based site that offers its members inside access to the WPT content database, as well as sweepstakes-based poker product that allows members to play for real cash and prizes in 43 states and territories across the United States, Australia, Canada, France and the United Kingdom. WPT also participates in strategic brand licensing, partnership, and sponsorship opportunities.

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Results of Discontinued Operations

Net income from discontinued operations details are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues	\$ 6,844,348	\$ 3,961,825	\$ 12,178,358	\$ 8,949,137
Operating costs and expenses	5,450,937	4,100,134	9,837,430	8,815,400
Income (loss) from operations	1,393,411	(138,309)	2,340,928	133,737
Other income	-	3,060	689,525	5,803
Net income (loss) from discontinued operations, before tax	1,393,411	(135,249)	3,030,453	139,540
Income tax	-	-	-	-
Income (loss) from discontinued operations, net of tax provision	<u>\$ 1,393,411</u>	<u>\$ (135,249)</u>	<u>\$ 3,030,453</u>	<u>\$ 139,540</u>

Other income for the six months ended June 30, 2021 consists primarily of income recognized upon the forgiveness of a loan received pursuant to the Paycheck Protection Program ("PPP") under the CARES Act which was included in Loans Payable in the table below at December 31, 2020.

Assets and liabilities held for sale are classified as current because the Sale Transaction closed on July 12, 2021. The details are as follows:

	June 30, 2021	December 31, 2020
Assets		
Cash	\$ 4,027,609	\$ 3,633,292
Accounts receivable	2,865,955	1,804,627
Restricted cash	100,000	-
Prepaid expenses and other assets	238,691	289,968
Property and equipment, net	1,444,986	1,674,355
Goodwill	4,083,621	4,083,621
Intangible assets, net	11,066,721	12,305,887
Deposits	79,500	79,500
Deferred production costs	13,408,273	12,058,592
Due from affiliates	12,202,681	9,433,975
Total assets held for sale	<u>\$ 49,518,037</u>	<u>\$ 45,363,817</u>
Liabilities		
Accounts payable	\$ 344,881	\$ 211,228
Accrued expenses and other liabilities	4,349,475	3,804,301
Accrued interest	-	4,224
Deferred revenue	2,554,516	1,970,668
Deferred rent	2,616,829	2,493,526
Loans payable	-	685,300
Total liabilities held for sale	<u>\$ 9,865,701</u>	<u>\$ 9,169,247</u>

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Note 5 – Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	June 30, 2021	December 31, 2020
Compensation expense	\$ 1,709,922 ⁽¹⁾	\$ 1,010,734 ⁽¹⁾
Rent	216,025	148,919
Event costs	-	26,926
Legal and professional fees	335,806	307,135
Warrant liabilities	14,000	3,000
Unclaimed player prizes	30,190	45,171
Other accrued expenses	225,195	445,132
	<u>\$ 2,531,138</u>	<u>\$ 1,987,017</u>

(1) Accrued compensation expense as of June 30, 2021 and December 31, 2020 includes approximately \$571,000, which is payable to the employees of the Company's continuing operations for their 2020 services. The Company paid such compensation from the proceeds of the Sale Transaction. See Note 11 – Subsequent Events.

Note 6 – Convertible Debt and Convertible Debt, Related Party

As of June 30, 2021 and December 31, 2020, the Company's convertible debt consisted of the following:

	June 30, 2021			December 31, 2020		
	Gross Principal Amount	Debt Discount	Convertible Debt, Net of Debt Discount	Gross Principal Amount	Debt Discount	Convertible Debt, Net of Debt Discount
Convertible debt	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000
Convertible debt, related party	1,000,000	-	1,000,000	1,000,000	-	1,000,000
Senior secured convertible notes	-	-	-	581,818	(3,646)	578,172
Total	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,581,818</u>	<u>(3,646)</u>	<u>2,578,172</u>
Less: current portion	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
Convertible debt, non-current	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 581,818</u>	<u>\$ (3,646)</u>	<u>\$ 578,172</u>

Convertible Debt and Convertible Debt, Related Party

Convertible bridge notes (the "Convertible Bridge Notes") are secured by the assets of WPT and Allied Esports and mature on February 23, 2022 (the "Maturity Date"). Further, the minimum interest to be paid under each Convertible Bridge Note shall be the greater of (a) 18 months of accrued interest at 12% per annum; or (b) the sum of the actual interest accrued plus 6 months of additional interest at 12% per annum. In the event of default, the Convertible Bridge Notes shall become immediately due and payable upon the written notice of the holder. The Company repaid in full the Convertible Bridge Notes from the proceeds of the Sale Transaction. See Note 11 – Subsequent Events.

The Convertible Bridge Notes are convertible into shares of AESE common stock at any time at a conversion price of \$8.50 per share. If any holder elects to convert their Convertible Bridge Note into common stock, they would also be entitled to receive additional shares of common stock ("Contingent Consideration Shares") equal to the product of (i) 3,846,153 shares, multiplied by (ii) that holder's investment amount, divided by (iii) \$100,000,000, if at any time within five years after the August 9, 2019 closing date, the last exchange-reported sale price of common stock trades at or above \$13.00 for thirty (30) consecutive calendar days.

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The Company recorded interest expense of \$59,795 and \$118,932 related to the Convertible Bridge Notes during the three and six months ended June 30, 2021, respectively, and recorded interest expense of \$606,772 and \$1,289,713 (including amortization of debt discount of \$96,806 and \$160,999, respectively) during the three and six months ended June 30, 2020. As of June 30, 2021, the debt discount on the Convertible Bridge Notes has been fully amortized.

Senior Secured Convertible Notes

During the six months ended June 30, 2021, the Company issued 529,383 shares of its common stock, as Monthly Redemption Payments in satisfaction of an aggregate amount of \$581,818 of principal and \$93,091 of interest payable owed on the Senior Notes as well as \$146,958 of non-cash interest accrued on the Senior Notes. Of the 529,383 shares issued, 132,346 shares were issued in connection with accelerated Monthly Redemption Payments in the aggregate amount of \$168,727 (representing \$145,454 and \$23,273 of principal and interest, respectively). The Company recorded additional non-cash interest expense in the amount of \$46,110 in connection with Monthly Redemption Payments during the six months ended June 30, 2021. As of June 30, 2021, all principal and interest owed in connection with the Senior Notes has been repaid in full.

Note 7 – Bridge Note Payable

The bridge note payable (the “Bridge Note”) matures on February 23, 2022 and bears interest at 12% per annum (increasing to 15% per annum upon an event of default as defined in the Bridge Note agreement). Principal (\$1,421,096) and interest owed under the Bridge Note is not convertible into shares of the Company’s common stock. During the three and six months ended June 30, 2021, the Company recorded interest expense of \$42,487 and \$84,507, respectively, and \$0 for the three and six months ended June 30, 2020, in connection with the Bridge Note. The Company repaid the Bridge Note in full from the proceeds of the Sale Transaction. See Note 11 – Subsequent Events.

Note 8 – Loans Payable

During May 2020, the Company’s continuing operations received aggregate cash proceeds of \$907,129 pursuant to two loans (the “PPP Loans”) provided in connection with the Paycheck Protection Program (“PPP”) under the CARES Act. The PPP Loans bear interest at 0.98% per annum. Monthly amortized principal and interest payments begin in July 2021 and the notes mature in April 2022. While the PPP Loans currently have two-year maturities, the amended law permits the borrower to request five-year maturities from its lenders. As of June 30, 2021, the Company has applied for forgiveness and is waiting on a response.

The Company recorded interest expense of \$2,216 and \$4,408 related to the PPP Loans for the three and six months ended June 30, 2021 and \$2,690 for the three and six months ended June 30, 2020, respectively.

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Note 9 – Commitments and Contingencies

Litigations, Claims, and Assessments

The Company is involved in various disputes, claims, liens and litigation matters arising out of the normal course of business. While the outcome of these disputes, claims, liens and litigation matters cannot be predicted with certainty, after consulting with legal counsel, management does not believe that the outcome of these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Operating Leases

On November 5, 2020, Allied Esports entered into an amendment of its lease of event space in Las Vegas Nevada (the "Amended Las Vegas Lease"), pursuant to which (i) \$299,250 of deferred minimum monthly rent and additional rent due under the lease for the period from April 1, 2020 through June 3, 2020 must be paid in its entirety by December 31, 2021; (ii) the monthly rent to be paid for the period from June 25, 2020 through December 31, 2020 (the "Rent Relief Period") was reduced to an amount equal to 20% of gross sales (excluding food sales) at the event space (the "Percentage Rent"), (iii) the initial term of the lease was extended for two additional months until May 31, 2023, and (iv) the option period to extend the lease was extended to between April 1, 2022 and September 30, 2022. Pursuant to the Amended Las Vegas Lease, if the aggregate Percentage Rent during the Rent Relief Period is less than \$194,000, Allied Esports must pay the shortfall no later than December 31, 2021. The Company and the landlord of the event space agreed to extend the Rent Relief Period through the second quarter of 2021.

The Company's aggregate rent expense incurred was \$395,384 and \$548,525 during the three months ended June 30, 2021 and 2020, respectively, and was \$747,053 and \$932,626 during the six months ended June 30, 2021 and 2020, respectively. Of the aggregate rent incurred during the three months ended June 30, 2021 and 2020, \$310,877 and \$402,052, respectively, was included within in-person costs and \$84,507 and \$146,473, respectively, is included in general and administrative expenses on the condensed consolidated statements of operations. Of the aggregate rent incurred during the six months ended June 30, 2021 and 2020, \$574,427 and \$714,553, respectively, was included within in-person costs and \$172,626 and \$218,073, respectively, is included in general and administrative expenses on the condensed consolidated statements of operations.

AESE is currently the guarantor of WPT's lease of Irvine, California office space (the "Irvine Lease"). The lease expires on October 1, 2033. Current base rent pursuant to the Irvine Lease is \$41,027 per month, increasing to \$58,495 per month over the term of the lease.

AESE is currently the guarantor of WPT's lease of Los Angeles, California office space (the "LA Lease"). The lease expires on November 30, 2031. Current base rent pursuant to the LA Lease is \$38,533.50 per month, increasing to \$51,785.80 per month over the term on the lease.

The Company and the purchaser of WPT are working toward releasing the Company as a guarantor on the Irvine and LA leases as part of the Sale Transaction. See Note 11 – Subsequent Events.

Note 10 – Stockholders' Equity

Common Stock

On January 4, 2021, the Company issued to its non-executive directors an aggregate of 126,584 shares of common stock from its 2019 Equity Incentive Plan for their director services to the Company. The Company recognized stock-based compensation of \$200,000 in connection with the issuance of these shares.

Each of the Company's non-executive directors is entitled to an annual award of \$25,000, payable in the Company's common stock, which will be issued at the beginning of each year for services rendered in the prior year. During the three and six months ended June 30, 2021, the Company recorded stock-based compensation of \$50,000 and \$100,000, respectively, related to this award, which is included in accrued expenses on the accompanying unaudited condensed consolidated balance sheet.

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Stock Options

On May 6, 2021, the Company granted ten-year stock options to purchase an aggregate of 160,000 shares of common stock to its directors. The shares vest in equal annual installments over four years and have an exercise price of \$2.48 per share, which represents the Company's closing stock price on the day prior to the date of grant. The options had an aggregate grant date fair value of \$145,777 and are amortized over the vesting period. The grant date value of the options granted were calculated using the Black-Scholes option pricing model, with the following assumptions used:

Risk free interest rate	1.58%
Expected term (years)	6.25
Expected volatility	40%
Expected dividends	0.00%

A summary of the option activity during the six months ended June 30, 2021 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Yrs)	Intrinsic Value
Outstanding, January 1, 2021	2,430,000	\$ 4.15		
Granted	160,000	2.48		
Exercised	-	-		
Expired	-	-		
Forfeited	(37,500)	4.09		
Outstanding, June 30, 2021	<u>2,552,500</u>	<u>\$ 4.05</u>	<u>8.51</u>	<u>\$ 30,800</u>
Exercisable, June 30, 2021	<u>557,500</u>	<u>\$ 4.33</u>	<u>8.37</u>	<u>\$ -</u>

Options outstanding and exercisable as of June 30, 2021 are as follows:

Options Outstanding		Options Exercisable	
Exercise Price	Outstanding Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$ 2.11	80,000	-	-
\$ 2.17	120,000	-	-
\$ 2.48	160,000		
\$ 4.09	1,852,500	8.39	472,500
\$ 5.66	340,000	8.22	85,000
	<u>2,552,500</u>	<u>8.37</u>	<u>557,500</u>

For the three months ended June 30, 2021 and 2020, the Company recorded \$226,698 and \$213,763, respectively, of stock-based compensation expense related to stock options issued as compensation, of which \$56,917 and \$50,816, respectively, was included in net income (loss) of discontinued operations on the accompanying condensed consolidated statements of operations. During the six months ended June 30, 2021 and 2020, the Company recorded \$509,697 and \$454,612, respectively, of stock-based compensation expense related to stock options issued as compensation, of which \$113,213 and \$101,632, respectively, was included in net income of discontinued operations on the accompanying condensed consolidated statement of operations. As of June 30, 2021, there was \$1,698,073 of unrecognized stock-based compensation expense related to the stock options that will be recognized over the weighted average remaining vesting period of 2.5 years. Additionally, \$505,247 of unrecognized stock-based compensation expense related to stock options of employees of discontinued operations will be expensed immediately upon completion of the Sale Transaction (see Note 11 – Subsequent Events).

ALLIED ESPORTS ENTERTAINMENT, INC

**Notes to Condensed Consolidated Financial Statements
(unaudited)**

Restricted Common Stock

A summary of the non-vested restricted common stock activity during the six months ended June 30, 2021 is presented below:

	Number of Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested balance, January 1, 2021	199,143	\$ 2.03
Granted	-	-
Vested	-	-
Forfeited	-	-
Outstanding, June 30, 2021	<u>199,143</u>	<u>\$ 2.03</u>

For the three months ended June 30, 2021 and 2020, the Company recorded \$80,925 and \$117,875, respectively, of stock-based compensation expense related to restricted stock issued as compensation of which \$13,712 and \$6,233, respectively, was included in net income (loss) of discontinued operations on the accompanying condensed consolidated statements of operations. During the six months ended June 30, 2021 and 2020, the Company recorded \$160,931 and \$231,311, respectively, of stock-based compensation expense related to restricted stock issued as compensation of which \$27,273 and \$12,466, respectively, was included in net income of discontinued operations on the accompanying condensed consolidated statements of operations. As of June 30, 2021, there was \$106,121 of unrecognized stock-based compensation expense related to restricted stock that will be recognized over the weighted average remaining vesting period of 0.5 years. Additionally, \$5,576 of unrecognized stock-based compensation expense related to restricted stock of employees of discontinued operations will be expensed immediately upon completion of the Sale Transaction (see Note 11 – Subsequent Events).

Restricted Stock Units

On January 19, 2021, the Company entered into a Restricted Stock Unit Agreement with its Chief Executive Officer (“CEO”), pursuant to which the CEO received restricted stock units having a stated value equal to \$1,000,000. The restricted stock units represent the right to receive \$1,000,000, contingent upon the closing of the Sale Transaction, which is payable upon the earlier of the two-year anniversary of the closing date of the Sale Transaction (provided that the CEO remains continuously employed by the Company through such date), or the termination of the CEO’s employment without cause after the closing of the Sale Transaction (as defined in his employment agreement) (as applicable, the “Vesting Date”). At the time of payment, the Company may elect to pay the \$1,000,000 award in cash or in shares of common stock valued at the fair market value of our common stock on the Vesting Date, or any combination thereof. All issuances of common stock will be issued from our 2019 Equity Incentive Plan. If payments or benefits provided or to be provided by the Company or its affiliates to the CEO pursuant to the agreement or otherwise (“Covered Payments”) constitute “parachute payments” within the meaning of Section 280G of the Internal Revenue Code of 1986 (the “Code”) that would be subject to the excise tax imposed under Section 4999 of the Code (collectively, the “Excise Tax”), payments to be made under the agreement will be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax. On March 22, 2021, the agreement was amended to provide that the Vesting Date would apply after the two-year anniversary of the sale of CSI (provided that the CEO remains continuously employed by the Company through such date). The Company recorded a charge to stock-based compensation and a corresponding credit to accrued compensation expense in the amount of \$100,000 and \$200,000 for the three and six months ended June 30, 2021, respectively, representing the amortization of this award during the six months ended June 30, 2021. See Note 11 – Subsequent Events – Resignation of Chief Executive Officer.

Note 11 – Subsequent Events

Sale of WPT Business

On July 12, 2021, the Company completed the sale of the WPT business to Element Partners, LLC for an aggregate purchase price of \$106.2 million. Approximately \$3.8 million of the purchase price was paid to discharge debt (principal and accrued interest) of the Company. In addition, all indebtedness due to WPT (classified as “Due to affiliates” on the condensed consolidated balance sheet) by the entities included in continuing operations was forgiven by WPT immediately prior to the sale. Additionally, 590,000 stock options and 29,763 restricted common stock of WPT employees became fully vested and all remaining amortization of the grant date fair value was accelerated. The Company sold 100% of the outstanding capital stock of each of the legal entities that collectively operate or engage in the Company’s poker-related business and assets.

ALLIED ESPORTS ENTERTAINMENT, INC

Notes to Condensed Consolidated Financial Statements (unaudited)

Resignation of Chief Executive Officer

On July 13, 2021, Frank Ng resigned as Chief Executive Officer of the Company, effective immediately. In connection with his resignation, the Company entered into a Release and Separation Agreement with Mr. Ng (the "Release") pursuant to which, among other things, Mr. Ng has agreed to provide reasonable assistance to the Company as requested in connection with the Company's Esports division, Mr. Ng released any and all claims he may have against the Company and its subsidiaries (subject to certain exclusions), and the Company agreed to provide Mr. Ng with certain separation benefits, including \$400,000 (gross) in severance pay payable over a twelve-month period, accelerated vesting of all unvested stock options previously granted to Mr. Ng pursuant to an Option Agreement dated effective November 21, 2019, and accelerated vesting of all unvested shares of restricted stock previously granted to Mr. Ng pursuant to an Executive Restricted Stock Agreement dated August 7, 2020.

In addition, the Release provides for an amendment to the terms of the restricted stock units previously granted to Mr. Ng in which Mr. Ng was entitled to receive \$1,000,000 upon the earlier of July 12, 2023 (which is the two-year anniversary of the closing date of the Company's recent sale of the WPT business), or the termination of Mr. Ng's employment without cause. At the time of payment, the Company may elect to pay the \$1,000,000 in cash or shares of common stock, or any combination thereof. The terms of the Release provide that Mr. Ng will be entitled to the payment of the \$1,000,000 prior to July 12, 2023, upon a sale of substantially all of the assets or equity interests comprising the Company's Esports division prior to July 12, 2023, provided that Mr. Ng provides consulting services to the Company through the sale date and no "separation from service," as defined under Section 409A of the Internal Revenue Code of 1986, as amended, occurs prior to the sale date.

Appointment of Chief Executive Officer, President and General Counsel

On July 13, 2021, the Company appointed Libing (Claire) Wu as its Chief Executive Officer, President and General Counsel. The Company entered into an employment agreement with Ms. Wu that provides for, among other things, payment to Ms. Wu of an annual base salary equal to \$500,000, subject to cost-of-living adjustments applicable to Company employee salaries from time to time.

Ms. Wu is also eligible to receive an annual incentive bonus of up to 60% of her annual salary, determined at the discretion of the Board of Directors and subject to the attainment of certain Board objectives. In addition, Ms. Wu received a \$200,000 bonus payable upon commencement of her employment. Also, upon commencement of her employment, Ms. Wu was granted 80,000 shares of restricted common stock, subject to transfer and forfeiture restrictions until the shares vest on August 16, 2022, and ten year options to purchase up to 200,000 shares of the Company's common stock at an exercise price of \$2.21 per share that are scheduled to vest in four equal annual installments commencing on the one-year anniversary of the grant date.

The agreement expires automatically on the five-year anniversary of the effective date. However, the agreement may be extended for additional periods of up to one year by the parties' mutual written agreement at least thirty days prior to expiration of the current term. The agreement can be terminated by the Company or by Ms. Wu prior to expiration.

In the event the agreement is terminated without cause (as described in the agreement) by the Company, or by Ms. Wu for good reason (as described in the agreement), Ms. Wu is entitled to receive severance from the Company equal to eighteen months of base salary, then in effect at the time of termination, payable over an eighteen-month period in equal installments on the Company's regular pay dates, less applicable taxes and withholdings. Ms. Wu shall also receive any accrued, unused vacation pay.

Appointment of New Director

On August 12, 2021, Tae Hyung Steve Kim resigned from the Company's Board of Directors (the "Board"). On August 13, 2021, the Company appointed Alexander Misch to serve as a Class B Director on the Board and fill the vacancy on the Board created as a result of Mr. Kim's resignation.

The Company issued to Mr. Misch an option to purchase 40,000 shares of common stock at an exercise price of \$2.06 per share, which vests in four annual installments; provided that the option may not be exercised in full or in part until the Company's shareholders have approved an increase in the number of shares authorized under the Company's 2019 Stock Incentive Plan sufficient to permit the issuance of the shares underlying such option.

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

Cautionary Statements

The following discussion and analysis of the results of operations and financial condition of Allied Esports Entertainment Inc. (the “Company”) as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion and analysis should be read in conjunction with the Company’s audited financial statements and related disclosures as of December 31, 2020 and for the year then ended, which are included in the Form 10-K (the “Annual Report”) filed with the Securities and Exchange Commission (“SEC”) on April 13, 2021. References in this Management’s Discussion and Analysis of Financial Condition and Results of Operations to “us”, “we”, “our” and similar terms refer to the Company. This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. These statements are often identified by the use of words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and similar expressions or variations. Actual results could differ materially because of the factors discussed in “Risk Factors” in our Annual Report, and other factors that we may not know. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements above, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

The Company

The Company operates a premier public esports and entertainment company, consisting of the Allied Esports and World Poker Tour businesses. “Allied Esports” refers to the Company’s esports business, and the “World Poker Tour” or “WPT”, refers to the Company’s poker business.

Allied Esports

Gaming is one of the largest and fastest growing markets in the entertainment sector, with an estimated 2.56 billion gamers playing esports globally, and esports is the major driver of this growth. Esports, short for “electronic sports,” is a general label that comprises a diverse offering of competitive electronic games that gamers play against each other. It is projected that by 2023, 646 million people will be watching esports globally, and that global esports revenue will grow to approximately \$1.5 billion.

The esports gaming industry is relatively new and is challenging. Competition is rapidly developing. Allied Esports’ business relies upon its ability to grow and garner an active gamer community, and successfully monetize this community through tournament fees, live event ticket sales, and advertising and sponsorships utilizing a three-pillar approach, which includes:

- in-person experiences;
- developing multiplatform content; and
- providing interactive services.

Its growth also depends, in part, on its ability to respond to technological evolution, shifts in gamer trends and demands, introductions of new games, game publisher intellectual property right practices, and industry standards and practices. While change in this industry may be inevitable, Allied Esports will try to adapt its business model as needed to accommodate change and remain on the forefront of its competitors, by collaborating with its strategic investors, including certain affiliates of Simon Property Group, Inc., a global leader in the ownership of premier shopping, dining, entertainment, and mixed-use destinations (“Simon”), and with certain affiliates of Brookfield Property Partners, one of the world’s premier real estate companies.

Allied Esports' business plan requires significant capital expenditures, and it expects its operating expenses to increase significantly as it continues to expand its marketing efforts and operations in existing and new geographies and vertical markets (including its online esports tournament and gaming subscription platform it intends to develop). A key element of Allied Esports' growth strategy is to extend its brand by opening additional flagship arenas throughout the world and by licensing the Allied Esports brand to third party esports arena operators, which it believes will provide attractive returns on investment.

World Poker Tour

The World Poker Tour is a premier name in internationally televised gaming and entertainment with brand presence in land-based poker tournaments, television, online and mobile. Leading innovation in the sport of poker since 2002, WPT helped ignite the global poker boom with the creation of a unique television show based on a series of high-stakes poker tournaments. WPT's Tour Events are held at locations throughout the world and have awarded more than one billion in prize dollars in its 18-year history. WPT has broadcast globally in more than 150 countries and territories, and is currently producing its 18th season, which airs on Bally Sports Network, formerly known FOX Sports Regional Networks in the United States. Season 18 of WPT is currently sponsored by its online subscription-based poker service, ClubWPT.com. WPT offers a suite of online poker services which it operates by itself and through its partners offering consumers the ability to access gaming content on a year-round 24/7 basis. ClubWPT.com is a unique online membership site that offers inside access to the WPT, as well as a sweepstakes-based poker club available in 43 states and territories across the United States, Australia, Canada, France, and the United Kingdom, with innovative features and state-of-the-art creative elements inspired by WPT's 18 years of experience in gaming entertainment. In addition, WPT licenses its brand to social gaming sites through partners like Zynga as well as to educational learning platforms such as LearnWPT. These online products are scalable and offer geographic access that might be limited if WPT relied on tour stop participation alone. Additionally, WPT benefits from managing its own distribution business which currently has more than 1,100 hours of broadcast-ready content, and offers demographically similar programming to its poker content, such as esports, golf and MMA. WPT uses this large suite of programming as leverage to seek preferred airtimes on its various distribution channels where it may promote its online products or offer airtime to sponsors in territories they seek to enter. WPT also participates in strategic brand license, partnership, sponsorship opportunities and music licensing, applying its three-pillar model of in-person experiences, multiplatform content and interactive services, described above, to the sport of poker.

Sale of WPT Business. On January 19, 2021, the Company and its direct and indirect wholly-owned subsidiaries, Allied Esports Media, Inc. ("Esports Media," and together with the Company, the "Selling Parties") and Club Services, Inc. ("CSI"), entered into a Stock Purchase Agreement (the "Original Agreement") with Element Partners, LLC ("Buyer"), pursuant to which the Selling Parties have agreed to sell 100% of the outstanding capital stock of CSI to Buyer. CSI is the Company's indirect wholly-owned subsidiary that directly or indirectly owns 100% of the outstanding capital stock of each of the legal entities that collectively operate or engage in the Company's poker-related business and assets (the "WPT Business"). The proposed sale of CSI is referred to herein as the "Sale Transaction." In connection with the Original Agreement, Buyer agreed to pay Esports Media a total purchase price of \$78.25 million for the stock of CSI, including an initial purchase price at closing of \$68.25 million and \$10.0 million in future payments after the closing of the Sale Transaction. After the execution of the Original Agreement, the Company received multiple unsolicited competing proposals to sell the Company and/or CSI. As a result of such proposals and further negotiation with Buyer, the Selling Parties, CSI and Buyer entered into an Amended and Restated Stock Purchase Agreement on March 19, 2021, and thereafter amended such agreement on March 29, 2021 (as amended, the "Stock Purchase Agreement").

Buyer agreed to pay Esports Media a total purchase price of \$105 million for the stock of CSI (the “base purchase price”) at the closing of the Sale Transaction, as further described below. The base purchase price is adjusted to reflect the amount of CSI’s cash, indebtedness and accrued and unpaid transaction expenses as of the closing of the Sale Transaction. Buyer remitted a \$10.0 million advance payment of the base purchase price upon the execution of the Stock Purchase Agreement.

On July 12, 2021, the Company completed the sale of the WPT business to Buyer for an aggregate purchase price of \$106.2 million. Approximately \$3.8 million of the purchase price was paid to discharge debt (principal and accrued interest) of the Company.

COVID-19 Pandemic. The recent outbreak of the COVID-19 respiratory illness has had an adverse effect on the Company. As a global entertainment company that hosts numerous live events with spectators and participants in destination cities, such outbreak has caused people to avoid traveling to and attending our events. Allied Esports and WPT businesses have cancelled or postponed live events, and until Allied Esports’ flagship gaming arena located at the Luxor Hotel in Las Vegas, Nevada reopened on June 25, 2020 these businesses were operating online only. The arena is currently running at full capacity for daily play and weekly tournaments. At this time, we cannot determine the full extent of the impact that such outbreak may have on our operations.

Results of Operations

Continuing Operations

Our continuing operations consist of our esports gaming operations, which take place at global competitive esports properties designed to connect players and fans via a network of connected arenas. Through our subsidiary Allied Esports, we offer esports fans state-of-the-art facilities to compete against other players in esports competitions, host live events with esports superstars that potentially stream to millions of viewers worldwide, produce and distribute esports content with at our on-site production facilities and studios. At our flagship arena in Las Vegas, Nevada, we provide an attractive facility for hosting corporate events, tournaments, game launches or other events. Additionally, Allied Esports has two mobile esports arenas, which are 18-wheel semi-trailers that convert into first class esports arenas and competition stages with full content production capabilities and interactive talent studios.

Discontinued Operations

WPT is an internationally televised gaming and entertainment company with brand presence in land-based tournaments, television, online and mobile applications. WPT has been involved in the sport of poker since 2002 and created a television show based on a series of high-stakes poker tournaments. WPT has broadcasted globally in more than 150 countries and territories and its shows are sponsored by established brands in many areas, including watches, crystal, playing cards and online social poker operators. WPT also operates ClubWPT.com, a subscription-based site that offers its members inside access to the WPT content database, as well as sweepstakes-based poker product that allows members to play for real cash and prizes in 43 states and territories across the United States, Australia, Canada, France and the United Kingdom. WPT also participates in strategic brand licensing, partnership, and sponsorship opportunities.

On January 19, 2021, we entered into the Original Agreement to sell the equity interests of our subsidiaries that own and operate the WPT business, subject to shareholder and regulatory approvals, for a base purchase price of \$78.25 million, which was subsequently amended to \$105 million as part of the Stock Purchase Agreement (the “Sale Transaction”). This base purchase price was adjusted to \$106.2 million to reflect the amount of the WPT business cash, indebtedness and accrued and unpaid transaction expenses as of the closing of the Sale Transaction on July 12, 2021. Prior to December 31, 2020, we committed to a plan to sell the WPT business. Accordingly, the WPT business has been recast as discontinued operations.

Results of Operations for the Three Months Ended June 30, 2021 and 2020

(in thousands, except for percentage of revenue data)	For the Three Months Ended June 30,		Increase (Decrease)
	2021	2020	
Revenues:			
In-person	\$ 671	\$ 620	\$ 51
Multiplatform content	154	-	154
Total Revenues	825	620	205
Costs and Expenses:			
In-person (exclusive of depreciation and amortization)	655	507	148
Multiplatform content (exclusive of depreciation and amortization)	127	-	127
Online operating expenses	56	53	3
Selling and marketing expenses	85	56	29
General and administrative expenses	2,896	2,316	580
Stock-based compensation	387	275	112
Depreciation and amortization	808	910	(102)
Impairment of investment in ESA	-	1,139	(1,139)
Loss From Operations	(4,189)	(4,636)	(447)
Other expense	(40)	-	40
Conversion inducement expense	-	(5,248)	(5,248)
Interest expense	(104)	(862)	(758)
Loss from continuing operations	(4,333)	(10,746)	(6,413)
Income (loss) from discontinued operations, net of tax provision	1,393	(135)	1,528
Net Loss	\$ (2,940)	\$ (10,881)	\$ (7,941)

Revenues

In-person experience revenues increased by approximately \$51 thousand, or 8%, to approximately \$671 thousand for the three months ended June 30, 2021 from approximately \$620 thousand for the three months ended June 30, 2020. The increase of in-person experience revenues was driven by a \$245 thousand increase in event revenue, a \$100 thousand increase in food and beverage revenue and a \$117 thousand increase in ticket and gaming revenue. These increases are a direct result of the COVID-19 pandemic and removal of capacity restrictions in the arena for the three months ended June 30, 2021. These increases were offset by a \$416 thousand decrease in sponsorship revenue due to decreases in event sponsorships and truck event sponsorships in Europe as such events have not yet picked up again as a result of the COVID-19 pandemic.

Multiplatform content revenue increased by approximately \$154 thousand to approximately \$154 thousand for the three months ended June 30, 2021 from \$0 for the three months ended June 30, 2020. The increase of multiplatform revenues was driven by a new contract entered into in the second quarter of 2021.

Costs and expenses

In-person costs (exclusive of depreciation and amortization) increased by approximately \$148 thousand, or 29%, to approximately \$655 thousand for the three months ended June 30, 2021 from approximately \$507 thousand for the three months ended June 30, 2020. The increase of in-person costs is primarily related to the continuation of events in 2021 that were postponed or canceled in 2020 due to the COVID-19 pandemic.

Multiplatform content costs (exclusive of depreciation and amortization) increased by approximately \$127 thousand for the three months ended June 30, 2021 from \$0 for the three months ended June 30, 2020. The increase of multiplatform content costs was driven by a new contract entered into in the second quarter of 2021.

Online operating expenses increased by approximately \$3 thousand, or 6%, to approximately \$56 thousand for the three months ended June 30, 2021, from approximately \$53 thousand for the three months ended June 30, 2020.

Selling and marketing expenses increased by approximately \$29 thousand, or 52%, to approximately \$85 thousand for the three months ended June 30, 2021 from approximately \$56 thousand for the three months ended June 30, 2020.

General and administrative expenses increased by approximately \$580 thousand, or 25%, to approximately \$2.9 million for the three months ended June 30, 2021, from approximately \$2.3 million for the three months ended June 30, 2020. Compensation and other operating expenses in connection with Allied Esports gaming operations increased during the three months ended June 30, 2021 as a result of the Company's increase in salaries in November 2020 after being reduced in March 2020 due to Covid-19. In addition, there were increases in legal and professional fees incurred during the period in connection with the sale of WPT.

Stock-based compensation was \$387 thousand for the three months ended June 30, 2021, compared to \$275 thousand for the three months ended June 30, 2020. The increase was a result of new awards that were issued in the second half of 2020.

Depreciation and amortization decreased by approximately \$102 thousand, or 11%, to approximately \$808 thousand for the three months ended June 30, 2021, from approximately \$910 thousand for the three months ended June 30, 2020.

The Company recorded an impairment of its investment in ESA of approximately \$1.1 million during the three months ended June 30, 2020. No impairment charges were recorded during the three months ended June 30, 2021.

Other income (expense)

The Company recognized other expense of approximately \$40 thousand during the three months ended June 30, 2021. There was \$257 of other expense recorded for the three months ended June 30, 2020.

Conversion inducement expense

Conversion inducement expense of approximately \$5.2 million during the three months ended June 30, 2020, resulted from the reduction in the conversion price and the increase in interest payable to induce the conversion of certain convertible debt converted during the period. There was no conversion inducement expense recorded for the three months ended June 30, 2021.

Interest expense

Interest expense was approximately \$104 thousand for the three months ended June 30, 2021 compared to \$862 thousand for the three months ended June 30, 2020, a decrease of \$758 thousand, or 88%. The decrease is a result of the decrease in the principal balance of notes payable and convertible notes outstanding during the period.

Results of Discontinued Operations

We recognized income (loss) from discontinued operations, net of tax, of approximately \$1.4 million and \$(135) thousand during the three months ended June 30, 2021 and 2020, respectively, representing an increase of \$1.5 million. The improvement in results from discontinued operations is primarily due to an increase in revenues from our subscription-based poker service and other online products during the period in response to the COVID-19 pandemic.

Results of Operations for the Six Months Ended June 30, 2021 and 2020

(in thousands, except for percentage of revenue data)	For the Six Months Ended June 30,		Increase (Decrease)
	2021	2020	
Revenues:			
In-person	\$ 1,172	\$ 1,678	\$ (506)
Multiplatform content	154	-	154
Total Revenues	1,326	1,678	(352)
Costs and Expenses:			
In-person (exclusive of depreciation and amortization)	1,193	1,495	(302)
Multiplatform content (exclusive of depreciation and amortization)	127	-	127
Online operating expenses	97	114	(17)
Selling and marketing expenses	129	132	(3)
General and administrative expenses	6,125	5,769	356
Stock-based compensation	1,030	4,221	(3,191)
Depreciation and amortization	1,690	1,810	(120)
Impairment of investment in ESA	-	1,139	(1,139)
Loss From Operations	(9,065)	(13,002)	(3,937)
Other income (expense)	15	(2)	17
Conversion inducement expense	-	(5,248)	(5,248)
Interest expense	(257)	(1,545)	(1,288)
Loss from continuing operations	(9,307)	(19,797)	(10,490)
Income from discontinued operations, net of tax provision	3,030	140	2,890
Net Loss	\$ (6,277)	\$ (19,657)	\$ (13,380)

Revenues

In-person experience revenues decreased by approximately \$506 thousand, or 30%, to approximately \$1.2 million for the six months ended June 30, 2021 from approximately \$1.7 million for the six months ended June 30, 2020. The decrease of in-person experience revenues was driven by a \$617 thousand decrease in sponsorship revenue as a direct result of the COVID-19 pandemic and the resulting limited ability to hold events during the six months ended June 30, 2021. This was slightly offset by approximately \$132 thousand increase in event revenue due to the removal of capacity restrictions at the arena.

Multiplatform content revenue increased by approximately \$154 thousand to approximately \$154 thousand for the six months ended June 30, 2021 from \$0 for the six months ended June 30, 2020. The increase of multiplatform revenues was driven by a new contract entered into in the second quarter of 2021.

Costs and expenses

In-person costs (exclusive of depreciation and amortization) decreased by approximately \$302 thousand, or 20%, to approximately \$1.2 million for the six months ended June 30, 2021 from approximately \$1.5 million for the six months ended June 30, 2020. The decrease of in-person costs is primarily related to the decrease of in-person revenues as a result of the postponement or cancellation of events due to the COVID-19 pandemic.

Multiplatform content costs (exclusive of depreciation and amortization) increased by approximately \$127 thousand for the six months ended June 30, 2021 from \$0 for the six months ended June 30, 2020. The increase of multiplatform content costs was driven by a new contract entered into in the second quarter of 2021.

Online operating expenses decreased by approximately \$17 thousand, or 15%, to approximately \$97 thousand for the six months ended June 30, 2021, from approximately \$114 thousand for the six months ended June 30, 2020.

Selling and marketing expenses decreased by approximately \$3 thousand, or 2%, to approximately \$129 thousand for the six months ended June 30, 2021 from approximately \$132 thousand for the six months ended June 30, 2020.

General and administrative expenses increased by approximately \$356 thousand, or 6%, to approximately \$6.1 million for the six months ended June 30, 2021, from approximately \$5.8 million for the six months ended June 30, 2020. Compensation and other operating expenses in connection with Allied Esports gaming operations increased during the six months ended June 30, 2021 as a result of the Company's increase in salaries in November 2020 after being reduced in March 2020 due to COVID-19 pandemic. In addition, there were increases in legal and professional fees incurred during the period in connection with the sale of WPT.

Stock-based compensation was \$1.0 million for the six months ended June 30, 2021, compared to \$4.2 million for the six months ended June 30, 2020. The decrease included a \$3.7 million stock-based compensation expense in 2020 related to the return of cash held in escrow associated with an escrow agreement with Simon that occurred during the six months ended June 30, 2020 which was slightly offset by an \$0.5 million increase due new awards that were issued in the second half of 2020.

Depreciation and amortization decreased by approximately \$120 thousand, or 7%, to approximately \$1.7 million for the six months ended June 30, 2021, from approximately \$1.8 million for the six months ended June 30, 2020.

The Company recorded an impairment of its investment in ESA of approximately \$1.1 million during the six months ended June 30, 2020. No impairment charges were recorded during the six months ended June 30, 2021.

Other income (expense)

Other income (expense) increased by approximately \$17 thousand, to approximately \$15 thousand for the six months ended June 30, 2021 from approximately \$(2) thousand for the six months ended June 30, 2020. The increase was due to an insurance payment received for a claim submitted for damaged equipment.

Conversion inducement expense

Conversion inducement expense of approximately \$5.2 million during the six months ended June 30, 2020, resulted from the reduction in the conversion price and the increase in interest payable to induce the conversion of certain convertible debt converted during the period. There was no conversion inducement expense recorded for the six months ended June 30, 2021.

Interest expense

Interest expense was approximately \$257 thousand for the six months ended June 30, 2021 compared to \$1.5 million for the six months ended June 30, 2020, a decrease of \$1.3 million, or 83%. The decrease is a result of the decrease in the principal balance of notes payable and convertible notes outstanding during the period.

Results of Discontinued Operations

We recognized income (loss) from discontinued operations, net of tax, of approximately \$3.0 million and \$140 thousand during the six months ended June 30, 2021 and 2020, respectively, representing an increase of \$2.9 million. The improvement in results from discontinued operations is primarily due to an increase in revenues from our subscription-based poker service and other online products during the period in response to the COVID-19 pandemic.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital deficit from continuing operations at June 30, 2021 and December 31, 2020, respectively:

(in thousands)	June 30, 2021	December 31, 2020
Current Assets	\$ 13,375	\$ 6,605
Current Liabilities	\$ 30,471	\$ 16,492
Working Capital Deficit	\$ (17,096)	\$ (9,887)

Our primary sources of liquidity and capital resources are cash on the balance sheet and funds raised through debt or equity financing.

As of June 30, 2021, we had cash of \$7.7 million (not including approximately \$5.0 million of restricted cash) and a working capital deficit from continuing operations of approximately \$17.0 million. For the six months ended June 30, 2021 and 2020, we incurred net losses from continuing operations of approximately \$9.3 million and \$19.8 million, respectively, and had cash used in continuing operations of approximately \$2.7 million and \$3.7 million, respectively. Further, convertible debt and bridge note obligations in the aggregate gross principal amount of \$3.4 million mature on February 23, 2022, but were paid upon the closing of the sale of WPT.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic which continues to spread throughout the United States. As a global entertainment company that hosts numerous live events with spectators and participants in destination cities, the outbreak has caused people to avoid traveling to and attending these events. Allied Esports’ has cancelled or postponed live events, and before the reopening of Allied Esports’ flagship gaming arena located at the Luxor Hotel in Las Vegas, Nevada on June 25, 2020, the business was operating online only. The arena is currently running at full capacity for daily play and weekly tournaments. We continue to monitor the outbreak of COVID-19 and the related business and travel restrictions, and changes to behavior intended to reduce its spread, and the related impact on our operations, financial position and cash flows, as well as the impact on our employees. The magnitude and duration of the pandemic and its impact on our future operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on our operations and liquidity, at the time of issuance, the extent of the impact cannot be determined.

Our continuation is dependent upon attaining and maintaining profitable operations and, until that time, raising additional capital as needed and utilizing the proceeds of our recent sale of the WPT business. On July 12, 2021, we completed the sale of the WPT business for an aggregate purchase price of \$106.2 million. With the sale of the WPT business, we believe our current cash on hand is sufficient to meet our operating and capital requirements for at least the next twelve months from the date these financial statements are issued.

Cash Flows from Operating, Investing and Financing Activities

The table below summarizes cash flows from continuing operations for the six months ended June 30, 2021 and 2020:

(in thousands)	Six Months Ended June 30,	
	2021	2020
Net cash provided by (used in)		
Operating activities	\$ (2,692)	\$ (3,721)
Investing activities	\$ 9,884	\$ (5,493)
Financing activities	\$ -	\$ 9,140

Net Cash Used in Operating Activities

Net cash used in operating activities primarily represents the results of operations exclusive of non-cash expenses (including depreciation, amortization, deferred rent, and stock-based compensation) and the impact of changes in operating assets and liabilities.

Net cash used in operating activities for the six months ended June 30, 2021 and 2020 was approximately \$2.7 million and \$3.7 million, representing an decrease of \$1.0 million. During the six months ended June 30, 2021 and 2020, the net cash used in operating activities was primarily attributable to the net loss from continuing operations of approximately \$9.3 million and \$19.8 million, respectively, adjusted for approximately \$2.7 million and \$12.7 million, respectively, of net non-cash expenses, and approximately \$3.9 million and \$3.4 million, respectively, of cash provided by changes in the levels of operating assets and liabilities.

Net Cash Provided By (Used in) Investing Activities

Net cash provided by (used in) investing activities primarily relates to the purchase of property and equipment and other investment activity.

Net cash provided by investing activities during the six months ended June 30, 2021 was approximately \$9.9 million, which consisted primarily of a \$10 million deposit for the sale of WPT.

Net cash used in investing activities for the six months ended June 30, 2020 was approximately \$5.5 million, which consisted primarily of approximately \$3.7 million of cash used for the return of the Simon Investment, \$1.5 million of cash used for our investment with TV Azteca as part of a Strategic Investment Agreement, and \$0.3 million used for the purchases of property and equipment.

Net Cash Provided By Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2021 was \$0 compared to \$9.1 million for the six months ended June 30, 2020. The decrease was a result of \$9.0 million of proceeds from the issuance of convertible debt for the six months ended June 30, 2020.

Cash Flows from Discontinued Operations

Cash held by our WPT business is classified as held for sale and is included in current assets of discontinued operations. No cash was provided to, or used by, discontinued operations from the WPT business.

Capital Expenditures

As of June 30, 2021, the Company has no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

The Company does not engage in any off-balance sheet financing activities, nor does the Company have any interest in entities referred to as variable interest entities.

Critical Accounting Policies and Estimates

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on April 13, 2021 and Note 3 to the condensed consolidated financial statements of this Quarterly Report on Form 10-Q, for a discussion of our critical accounting policies and use of estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Effectiveness of Disclosure Controls and Procedures

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2021. Based on this evaluation our management, including the Company's Chief Executive Officer and Chief Financial Officer, has concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2021 to ensure that the information required to be disclosed in our Exchange Act reports was recorded, processed, summarized and reported on a timely basis.

Despite not conducting a formal assessment regarding internal control over financial reporting, management identified the following material weaknesses as of December 31, 2020, which persist as of June 30, 2021:

- inadequate internal controls, including inadequate segregation of duties, inadequate controls over the preparation and review of the consolidated financial statements, inadequate controls over the accounting for complex financial instruments (such as warrants), and untimely annual closings of the books;
- inadequate controls and procedures as they relate to completeness of information reported by certain third parties that process transactions related to specific revenue streams; and
- inadequate information technology general controls as it relates to user access and change management.

Management has taken significant steps to enhance our internal control over financial reporting and plans to take additional steps to remediate the material weaknesses, including:

- hiring new accounting personnel;
- transitioning oversight of financial reporting to a principal financial officer; and
- engaging a national accounting advisory firm to assist with the documentation, evaluation, remediation and testing of our internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

Our management is committed to taking further action and implementing necessary enhancements or improvements. Notwithstanding the material weaknesses in internal control over financial reporting described above, our management has concluded that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with accounting principles generally accepted in the United States of America.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting which occurred during our fiscal quarter ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

As a “smaller reporting company”, we are not required to provide information required by this Item. However, our current risk factors are set forth in our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed with the SEC on April 13, 2021.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Earnings Release

On August 16, 2021, the Company issued a press release announcing its financial condition and results of operations for the three months ended June 30, 2021. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 5 in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Director

On August 12, 2021, Tae Hyung Steve Kim resigned from the Company’s Board of Directors (the “Board”). On August 13, 2021, the Company appointed Alexander Misch to serve as a Class B Director on the Board and fill the vacancy on the Board created as a result of Mr. Kim’s resignation. Mr. Misch was also elected to the Company’s Compensation Committee and Nominating and Corporate Governance Committee.

Mr. Misch is a lawyer who was most recently employed as Senior Corporate Counsel at the New York offices of T-Systems North America (a subsidiary of the global Deutsche Telekom AG group of companies, a global Fortune 100 company), a position which he held for seven years. Prior to that Mr. Misch served as senior corporate counsel to T-Systems South Africa, where he held multiple positions, including the acting head of the legal department, compliance officer, and privacy officer, and as lead counsel for the T-Systems Africa Regional Division from 2011 to 2013. Prior to joining the T-Systems group, Mr. Misch advised clients on a number of large projects, including assisting in the defense of a publicly listed corporation against a multi-billion dollar claim for a windfall profit tax, and the turnaround project of a global group of companies in the chemical industry. Mr. Misch holds a Master of Business Administration from the Gordon Institute of Business Science (University of Pretoria) and a B. Proc law degree from the Oliver Schreiner School of Law (University of the Witwatersrand). Mr. Misch is fluent in English, German, and Afrikaans.

The Company issued to Mr. Misch an option to purchase 40,000 shares of common stock at an exercise price of \$2.06 per share, which vests in four annual installments; provided that the option may not be exercised in full or in part until the Company’s shareholders have approved an increase in the number of shares authorized under the Company’s 2019 Stock Incentive Plan sufficient to permit the issuance of the shares underlying such option.

ITEM 6. EXHIBITS.

Exhibit	Description
31.1*	Section 302 Certification of Chief Executive Officer
31.2*	Section 302 Certification of Chief Financial Officer
32.1*	Section 906 Certification of Chief Executive Officer
32.2*	Section 906 Certification of Chief Financial Officer
99.1*	Press Release issued August 16, 2021
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith

SIGNATURES

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

ALLIED ESPORTS ENTERTAINMENT, INC.

Dated: August 16, 2021

By: /s/ Libing (Claire) Wu
Libing (Claire) Wu, Chief Executive Officer,
President and General Counsel
(Principal Executive Officer)

Dated: August 16, 2021

By: /s/ Anthony Hung
Anthony Hung, Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Libing (Claire) Wu, certify that:

- 1) I have reviewed this report on Form 10-Q of Allied Esports Entertainment, Inc,
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 16, 2021

/s/ Libing (Claire) Wu

Libing (Claire) Wu, Chief Executive Officer,
President and General Counsel
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony Hung, certify that:

- 1) I have reviewed this report on Form 10-Q of Allied Esports Entertainment, Inc,
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 16, 2021

/s/ Anthony Hung

Anthony Hung, Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of Allied Esports Entertainment, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2021 (the "Report") I, Anthony Hung, Chief Financial Officer of the Company, certify, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

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

Dated: August 16, 2021

/s/ Anthony Hung

Anthony Hung, Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.



Allied Esports Entertainment Announces Second Quarter 2021 Financial Results

IRVINE, Calif. (August 16, 2021) – Allied Esports Entertainment, Inc. (NASDAQ: AESE) (the “Company” or “AESE”), a global esports entertainment company, today announced financial results for the second quarter ended June 30, 2021, as well as an update on several key business initiatives. This release refers to “continuing” and “discontinued” operations due to the sale of the Company’s subsidiaries owning and operating its poker-related business, the World Poker Tour® (“World Poker Tour,” or “WPT®”). Therefore, unless otherwise noted, results presented in this release relate to the continuing operations of the Company and Allied Esports, and excludes the World Poker Tour, which is classified as discontinued operations.

Commenting on the second quarter 2021 results, the Company’s CEO, Libing (Claire) Wu, said, “Overall, I am pleased with the steady progress of our Esports business as demonstrated by the 65% quarter over quarter growth in revenue. This growth was driven by the gradual recovery of the In-person pillar of our Esports business, as we slowly emerge from the COVID-19 pandemic and continue to benefit from the easing of mandated restrictions on live events and social gatherings. In addition, during the second quarter we saw the early revenue contributions from our Multiplatform Content pillar. While the resumption of In-person events will be an important growth driver of our Esports revenue in the near term, we have also made good progress over the last several quarters building-out capabilities within our Multiplatform Content pillar. During the quarter, we announced the launch of AE Studios, which will serve as the original content development, storytelling and production services arm for partners of Allied Esports.”

Ms. Wu concluded, “Subsequent to quarter end, we completed the sale of WPT to Element Partners in an all-cash transaction for \$105 million. The sale of WPT is a key milestone as it significantly improves our liquidity position. With over \$100 million of cash today, we have significant financial flexibility as we look to maximize shareholder value through the utilization of our cash and concluding our strategic exploratory process for our esports business.”

Corporate Developments

On July 12, 2021, the Company announced the completion of the sale of its subsidiaries comprising the World Poker Tour® (“WPT Transaction”), to Element Partners, LLC. As previously announced, the purchase price of the transaction totaled \$105 million.

The rapid growth and popularity of gaming and esports during the COVID-19 pandemic has driven significant interest in the Company’s esports business, Allied Esports. With the WPT sale transaction complete, the Company has accelerated its previously announced plans to explore strategic options for the esports business, including a possible sale, in order to maximize shareholder value. The Company has engaged, and is actively working with, Lake Street Capital Markets as an advisor to assist with the process. The Company currently intends to continue to operate the esports business until such time as it has concluded its strategic evaluation. At this time no potential or particular buyer has been identified to purchase the esports business, and there are no active negotiations in respect of the sale of the esports business.

The Company is focused on using its cash resources, including any cash resources that may become available as a result of any sale of the esports business in the future, to explore opportunities to acquire or merge with a business including, but not limited to, a business in online entertainment, real money gaming and other gaming sectors. The Company expects to engage an investment bank to assist in this process. The Board also has knowledge in a number of industries and is exploring opportunities to maximize the Company’s investment and provide value to its stockholders. Key criteria for a potential target business include, but are not limited to, a proven business model, an experienced management team and accretion to the Company’s Adjusted EBITDA. However, the Company does not plan to limit itself to any particular industry or geographic location in its efforts to identify prospective target businesses. Currently, the Company does not have any specific merger, asset acquisition, reorganization or other business combination under consideration or contemplation.

At present, the Company does not intend to distribute any dividends to the Company’s stockholders as a result of the completion of the WPT Transaction.

Second Quarter 2021 Financial Results

Revenues: Total revenues of \$0.8 million increased 33% in the second quarter of 2021 compared to the second quarter of 2020. This was due to increased foot traffic in Las Vegas as well as encouraging early results from the Company's push into multiplatform content.

Costs and expenses: Total costs and expenses for the second quarter of 2021 were \$5.0 million, a decrease of 5% compared to the second quarter of 2020. Costs and expenses decreased primarily due to an impairment charge that was incurred in the second quarter of 2020 that was not incurred this quarter.

Loss from continuing operations for the quarter was \$4.3 million, compared to a loss of \$10.7 million in the prior year period.

Adjusted EBITDA loss was \$3.0 million for the 2021 second quarter, as compared to a loss of \$2.2 million in the second quarter of 2020. A reconciliation of the GAAP-basis net loss to adjusted EBITDA is provided in the table at the end of this press release.

Balance Sheet

As of June 30, 2021, the Company had a cash position of \$16.8 million, including \$5.0 million of restricted cash and \$4.1 million of cash in connection with the WPT business that is included in current assets held for sale, but was available to fund the Allied Esports business until the closing of the WPT sale transaction on July 12, 2021. The Company had a cash position of \$14.2 million at June 30, 2020, which included \$5.0 million of restricted cash and \$7.4 million held at WPT. The total gross principal amount of bridge and convertible debt as of June 30, 2021 was \$3.4 million, as compared to \$3.4 million as of December 31, 2020. As of June 30, 2021, the Company's common shares outstanding totaled approximately 39.2 million shares.

Operational Update

Allied Esports

During the second quarter, Allied Esports produced 81 events, including 38 proprietary events and 43 third-party online and in-person productions. Total events rose 135% by comparison to the previous quarter, primarily due to a significant increase in third party events.

The Company continued to see strong demand during the quarter in both its in-arena and online proprietary offerings. Over 14,200 players competed in tournaments organized by Allied Esports during the quarter, with events taking place online and in-arena.

During the second quarter, Allied Esports announced that the Company has been selected by Trovo, an interactive live streaming platform, to create and produce a new community esports tournament series for gamers in North America, Latin America and Europe that will run throughout 2021. The Trovo Titans program, featuring over 100 events and 280 days of competition through weekly matches and monthly tournaments, drove third-party events up 1,333% in the second quarter compared with the prior quarter.

The Company entered into a multiyear agreement with streaming workflow platform, MuxIP, to distribute content to select OTT platforms available around the world. This is Allied Esports' first distribution deal for originally produced content and features more than 250 hours of Allied Esports-produced competition and broadcasts from HyperX Esports Arena Las Vegas and international online tournaments.

During the quarter, Allied Esports named ViewSonic, a leading global provider of visual solutions, as the Official Gaming Monitor and Official Streamer Room Partner of its flagship esports venue, HyperX Esports Arena Las Vegas and the Allied Esports Truck in North America.

Also during the quarter, the Company launched AE Studios, a new division that will serve as the original content development, storytelling and production services arm of Allied Esports for partners in need of a turnkey solution outside of esports tournament operations and broadcasts. AE Studios launched with the production of CelebriTee Showdown, an interactive series featuring celebrities and streamers competing on virtual versions of some of the top golf courses in the world and airing on Twitch.tv/TwitchSports.

CEO Transition

On July 14, 2021, the Company announced the resignation of CEO Frank Ng, effective July 13, 2021, and the appointment of Libing (Claire) Wu as CEO, President and General Counsel of Allied Esports Entertainment, Inc. Ms. Wu previously served as and remains a director on the Company's Board of Directors and is a highly respected New York attorney with over 15 years of experience, focusing on corporate and securities transactions and compliance. Ms. Wu has extensive legal and business experience in cross-border transactions, U.S. securities regulation, mergers and acquisitions, capital market transactions, as well as corporate strategic planning and structuring. Prior to accepting the new position, Ms. Wu was the vice president and general counsel of Asia Pacific Capital, Inc., as well as senior counsel at the New York law firm Davidoff Hutcher & Citron LLP. Ms. Wu also served as a non-executive director of Ourgame.

Second Quarter 2021 Conference Call

The Company will host a conference call today at 2:00 p.m. Pacific Time / 5:00 p.m. Eastern Time to discuss its second quarter 2021 financial results. Participants may join the conference call by dialing 1-855-327-6837 (United States) or 1-631-891-4304 (International).

A live webcast of the conference call will also be available on the Company's Investor Relations site at <http://ir.alliedesportsent.com>. Additionally, financial information presented on the call will be available on Allied Esports' Investor Relations site. For those unable to participate in the conference call, a telephonic replay of the call will also be available shortly after the completion of the call, until 11:59 p.m. ET on Monday, August 30, 2021, by dialing 1-844-512-2921 (United States) or 1-412-317-6671 (International) and entering the replay pin number: 10015803.

About Allied Esports Entertainment

Allied Esports Entertainment (NASDAQ: AESE) is a global esports entertainment venture dedicated to providing transformative live experiences, multiplatform content and interactive services to audiences worldwide. For more information, visit alliedesports.gg.

Non-GAAP Financial Measures

As a supplement to our financial measures presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), the Company presents certain non-GAAP measures of financial performance. These non-GAAP financial measures are not intended to be considered in isolation from, as a substitute for, or as more important than, the financial information prepared and presented in accordance with GAAP. In addition, these non-GAAP measures have limitations in that they do not reflect all of the items associated with the company's results of operations as determined in accordance with GAAP.

The Company provides net income (loss) and earnings (loss) per share in accordance with GAAP. In addition, the Company provides EBITDA (defined as GAAP net income (loss) from continuing operations before interest (income) expense, income taxes, depreciation, and amortization). The Company defines "Adjusted EBITDA" as EBITDA excluding certain non-cash charges, including stock-based compensation, inducement expense and impairment losses.

In the future, the Company may also consider whether other items should also be excluded in calculating the non-GAAP financial measures used by the Company. Management believes that the presentation of these non-GAAP financial measures provides investors with additional useful information to measure the Company's financial and operating performance. In particular, the measures facilitate comparison of operating performance between periods and help investors to better understand the operating results of the Company by excluding certain items that may not be indicative of the Company's core business, operating results, or future outlook. Additionally, we consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Internally, management uses these non-GAAP financial measures, along with others, in assessing the Company's operating results, and measuring compliance with the requirements of the Company's debt financing agreements, as well as in planning and forecasting.

The Company's non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and our non-GAAP definitions of the "EBITDA" and "adjusted EBITDA" do not have a standardized meaning. Therefore, other companies may use the same or similarly named measures, but include or exclude different items, which may not provide investors a comparable view of the Company's performance in relation to other companies.

Management compensates for the limitations resulting from the exclusion of these items by considering the impact of the items separately and by considering the Company's GAAP, as well as non-GAAP, results and outlook, and by presenting the most comparable GAAP measures directly ahead of non-GAAP measures, and by providing a reconciliation that indicates and describes the adjustments made.

Forward Looking Statements

This communication contains certain forward-looking statements under federal securities laws. Forward-looking statements may include our statements regarding our goals, beliefs, strategies, objectives, plans, including product and service developments, future financial conditions, results or projections or current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those contemplated by the forward-looking statements. These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside our control, that could cause actual results or outcomes to differ materially from those discussed in these forward-looking statements. Important factors, among others, that may affect actual results or outcomes include: the ability to meet Nasdaq's continued listing standards; our ability to execute on our business plan; the ability to retain key personnel; potential litigation; general economic and market conditions impacting demand for our services; a change in our plans to retain the net cash proceeds from the WPT sale transaction; our inability to enter into one or more future acquisition or strategic transactions using the net proceeds from the WPT sale transaction; and a decision not to pursue strategic options for the esports business. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. The business and operations of AESE are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this communication. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Further information on potential factors that could affect our business is described under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the SEC on April 13, 2021. Readers are also urged to carefully review and consider the various disclosures we made in such Annual Report on Form 10-K

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Allied Esports Entertainment, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2021 (unaudited)	December 31, 2020
Assets		
Current Assets		
Cash	\$ 7,689,991	\$ 424,223
Restricted cash	5,000,000	5,000,000
Accounts receivable	356,722	271,142
Prepaid expenses and other current assets	328,009	909,766
Assets held for sale	49,518,037	45,363,817
Total Current Assets	62,892,759	51,968,948
Property and equipment, net	7,684,002	9,275,729
Intangible assets, net	29,820	30,818
Deposits	625,000	625,000
Total Assets	<u>\$ 71,231,581</u>	<u>\$ 61,900,495</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 844,723	\$ 901,353
Deposit for sale of WPT	10,000,000	-
Accrued expenses and other current liabilities	2,531,138	1,987,017
Accrued interest, current portion	360,747	152,899
Due to affiliates	12,202,681	9,433,975
Deferred revenue	203,477	57,018
Bridge note payable	1,421,096	1,421,096
Convertible debt, net of discount, current portion	1,000,000	1,000,000
Convertible debt, related party, net of discount, current portion	1,000,000	1,000,000
Loans payable, current portion	907,129	539,055
Liabilities held for sale	9,865,701	9,169,247
Total Current Liabilities	40,336,692	25,661,660
Deferred rent	2,015,646	1,693,066
Accrued interest, non-current portion	-	193,939
Convertible debt, net of discount, non-current portion	-	578,172
Loans payable, non-current portion	-	368,074
Total Liabilities	<u>42,352,338</u>	<u>28,494,911</u>
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.0001 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value; 100,000,000 shares authorized, 39,162,811 and 38,506,844 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	3,917	3,851
Additional paid in capital	197,180,610	195,488,181
Accumulated deficit	(168,554,170)	(162,277,414)
Accumulated other comprehensive income	248,886	190,966
Total Stockholders' Equity	<u>28,879,243</u>	<u>33,405,584</u>
Total Liabilities and Stockholders' Equity	<u>\$ 71,231,581</u>	<u>\$ 61,900,495</u>

Allied Esports Entertainment, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
In-person	\$ 670,886	\$ 620,462	\$ 1,171,914	\$ 1,678,203
Multiplatform content	153,723	-	153,723	-
Total Revenues	824,609	620,462	1,325,637	1,678,203
Costs and Expenses:				
In-person (exclusive of depreciation and amortization)	655,243	507,112	1,193,110	1,494,555
Multiplatform content (exclusive of depreciation and amortization)	126,885	-	126,885	-
Online operating expenses	56,228	52,693	96,547	114,400
Selling and marketing expenses	84,739	56,489	128,673	132,216
General and administrative expenses	2,895,509	2,316,243	6,125,064	5,769,340
Stock-based compensation	386,994	274,589	1,030,142	4,221,375
Depreciation and amortization	807,843	910,330	1,689,802	1,809,427
Impairment of investment in ESA	-	1,138,631	-	1,138,631
Total Costs and Expenses	5,013,441	5,256,087	10,390,223	14,679,944
Loss From Operations	(4,188,832)	(4,635,625)	(9,064,586)	(13,001,741)
Other Income (Expense):				
Other (expense) income, net	(40,163)	(257)	14,979	(2,459)
Conversion inducement expense	-	(5,247,531)	-	(5,247,531)
Interest expense	(104,496)	(862,067)	(257,602)	(1,545,007)
Total Other Expense	(144,659)	(6,109,855)	(242,623)	(6,794,997)
Loss from continuing operations	(4,333,491)	(10,745,480)	(9,307,209)	(19,796,738)
Income (loss) from discontinued operations, net of tax provision	1,393,411	(135,249)	3,030,453	139,540
Net loss	\$ (2,940,080)	\$ (10,880,729)	\$ (6,276,756)	\$ (19,657,198)
Basic and Diluted Net (Loss) Income per Common Share				
Continuing operations	\$ (0.11)	\$ (0.41)	\$ (0.24)	\$ (0.79)
Discontinued operations, net of tax	\$ 0.04	\$ (0.01)	\$ 0.08	\$ 0.01
Weighted Average Number of Common Shares Outstanding:				
Basic and Diluted	38,963,668	26,206,173	38,744,107	25,012,157
Comprehensive Loss				
Net Loss	(2,940,080)	(10,880,729)	(6,276,756)	(19,657,198)
Other comprehensive income:				
Foreign currency translation adjustments	32,584	190	57,920	190
Total Comprehensive Loss	\$ (2,907,496)	\$ (10,880,539)	\$ (6,218,836)	\$ (19,657,008)

RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA
(Unaudited)

EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered as a substitute for net income (loss), operating income (loss) or any other performance measure derived in accordance with United States generally accepted accounting principles (“GAAP”) or as an alternative to net cash provided by operating activities as a measure of AESE’s profitability or liquidity. AESE’s management believes EBITDA and Adjusted EBITDA are useful because they allow external users of its financial statements, such as industry analysts, investors, lenders and rating agencies, to more effectively evaluate its operating performance, compare the results of its operations from period to period and against AESE’s peers without regard to AESE’s financing methods, hedging positions or capital structure and because it highlights trends in AESE’s business that may not otherwise be apparent when relying solely on GAAP measures. AESE presents EBITDA and Adjusted EBITDA because it believes EBITDA and Adjusted EBITDA are important supplemental measures of its performance that are frequently used by others in evaluating companies in its industry. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA and Adjusted EBITDA AESE presents may not be comparable to similarly titled measures of other companies. AESE defines “EBITDA” as loss from continuing operations before interest, income taxes, depreciation and amortization of intangibles. AESE defines “Adjusted EBITDA” as EBITDA excluding certain non-cash charges, including stock-based compensation, inducement expense and impairment losses.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA from net loss from continuing operations, AESE’s most directly comparable financial measure calculated and presented in accordance with GAAP.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Continuing operations				
Net loss from continuing operations	\$ (4,333,491)	\$ (10,745,480)	\$ (9,307,209)	\$ (19,796,738)
Interest expense, net	104,496	862,067	257,602	1,545,007
Federal, state, and foreign taxes	-	117,367	-	117,410
Depreciation and amortization	807,843	910,330	1,689,802	1,809,427
EBITDA	(3,421,152)	(8,855,716)	(7,359,805)	(16,324,894)
Stock compensation	386,994	274,589	1,030,142	4,221,375
Impairment expense	-	1,138,631	-	1,138,631
Conversion inducement expense	-	5,247,531	-	5,247,531
Adjusted EBITDA	\$ (3,034,158)	\$ (2,194,965)	\$ (6,329,663)	\$ (5,717,357)