

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from      to

Commission file number: 000-30653



**Galaxy Gaming, Inc.**

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

20-8143439  
(IRS Employer Identification No.)

6480 Cameron Street Ste. 305 – Las Vegas, NV 89118  
(Address of principal executive offices)

(702) 939-3254  
(Issuer's telephone number)

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

Title of each class	Trading symbol	Name of exchange on which registered
Common stock	GLXZ	OTCQB marketplace

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer 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 issuer 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.

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 type="checkbox"/>		

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

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 standard provided pursuant to Section 13(a) of the Exchange Act.

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 22,354,804 common shares as of November 9, 2021.

**GALAXY GAMING, INC.**  
**QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021**  
**TABLE OF CONTENTS**

**PART I**

Item 1:	<a href="#">Financial Statements (unaudited)</a>	3
Item 2:	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	21
Item 3:	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	25
Item 4:	<a href="#">Controls and Procedures</a>	25

**PART II**

Item 1:	<a href="#">Legal Proceedings</a>	26
Item 2:	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	27
Item 6:	<a href="#">Exhibits</a>	27

**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

Our financial statements included in this Form 10-Q are as follows:

<a href="#"><u>Condensed Consolidated Balance Sheets as of September 30, 2021 (unaudited) and December 31, 2020</u></a>	4
<a href="#"><u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2021 and 2020 (unaudited)</u></a>	5
<a href="#"><u>Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three and nine months ended September 30, 2021 and 2020 (unaudited)</u></a>	6
<a href="#"><u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020 (unaudited)</u></a>	7
<a href="#"><u>Notes to Condensed Consolidated Financial Statements (unaudited)</u></a>	8

**GALAXY GAMING, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

ASSETS	September 30, 2021	December 31, 2020
<b>Current assets:</b>	(Unaudited)	
Cash and cash equivalents	\$ 7,401,870	\$ 5,993,388
Accounts receivable, net of allowance of \$244,810 and \$145,000, respectively	4,767,656	2,493,254
Inventory	748,237	668,525
Income tax receivable	1,540,950	1,229,795
Prepaid expenses	631,772	1,167,068
Other current assets	148,535	10,803
<b>Total current assets</b>	15,239,020	11,562,833
<b>Property and equipment, net</b>	117,005	116,724
<b>Operating lease right-of-use assets</b>	1,225,692	1,367,821
<b>Assets deployed at client locations, net</b>	301,206	232,156
<b>Goodwill</b>	1,091,000	1,091,000
<b>Other intangible assets, net</b>	14,180,964	16,086,896
<b>Other assets</b>	229,793	117,164
<b>Total assets</b>	<u>\$ 32,384,680</u>	<u>\$ 30,574,594</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 405,789	\$ 467,792
Accrued expenses	2,501,084	1,333,032
Revenue contract liability	43,750	29,167
Current portion of long-term debt	2,607,913	2,222,392
Current portion of operating lease liabilities	222,968	195,411
<b>Total current liabilities</b>	5,781,504	4,247,794
<b>Long-term operating lease liabilities</b>	1,075,560	1,215,680
<b>Long-term liabilities, net</b>	47,607,272	49,691,184
<b>Interest rate swap liability</b>	—	66,009
<b>Deferred tax liabilities, net</b>	150,892	150,892
<b>Total liabilities</b>	54,615,228	55,371,559
<b>Commitments and Contingencies (See Note 11)</b>		
<b>Stockholders' deficit</b>		
Preferred stock, 10,000,000 shares authorized, \$0.001 par value; 0 shares issued and outstanding, respectively	—	—
Common stock, 65,000,000 shares authorized; \$0.001 par value; 22,299,804 and 21,970,638 shares issued and outstanding, respectively	22,300	21,971
Additional paid-in capital	11,990,912	10,798,536
Accumulated deficit	(34,141,735 )	(35,655,163 )
Accumulated other comprehensive (loss) income	(102,025 )	37,691
<b>Total stockholders' deficit</b>	(22,230,548 )	(24,796,965 )
<b>Total liabilities and stockholders' deficit</b>	<u>\$ 32,384,680</u>	<u>\$ 30,574,594</u>

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

**GALAXY GAMING, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Revenue:</b>				
Licensing fees	\$ 5,281,788	\$ 1,797,833	\$ 14,314,127	\$ 6,956,122
<b>Total revenue</b>	<u>\$ 5,281,788</u>	<u>\$ 1,797,833</u>	<u>\$ 14,314,127</u>	<u>\$ 6,956,122</u>
<b>Costs and expenses:</b>				
Cost of ancillary products and assembled components	26,310	11,142	60,212	40,855
Selling, general and administrative	2,740,328	1,833,723	7,984,035	7,264,410
Research and development	156,768	97,081	405,327	391,333
Depreciation and amortization	722,475	575,637	2,160,217	1,499,927
Share-based compensation	449,564	178,553	1,207,649	512,818
<b>Total costs and expenses</b>	<u>4,095,445</u>	<u>2,696,136</u>	<u>11,817,440</u>	<u>9,709,343</u>
<b>Income (loss) from operations</b>	<u>1,186,343</u>	<u>(898,303)</u>	<u>2,496,687</u>	<u>(2,753,221)</u>
<b>Other income (expense):</b>				
Interest income	392	1,412	1,163	25,313
Interest expense	(129,422)	(162,082)	(450,474)	(506,922)
Share redemption consideration	(195,482)	(195,482)	(586,446)	(586,446)
Foreign currency exchange (loss) gain	(33,781)	20,014	(31,511)	(95,976)
Change in fair value of interest rate swap liability	—	55,330	66,009	21,650
Other non-recurring income	25,000	15,320	25,000	15,320
<b>Total other expense, net</b>	<u>(333,293)</u>	<u>(265,488)</u>	<u>(976,259)</u>	<u>(1,127,061)</u>
<b>Income (loss) before benefit (provision) for income taxes</b>	853,050	(1,163,791)	1,520,428	(3,880,282)
<b>Benefit (provision) for income taxes</b>	21,186	(133,708)	(7,000)	492,807
<b>Net income (loss)</b>	874,236	(1,297,499)	1,513,428	(3,387,475)
Foreign currency translation adjustment	(81,716)	—	(139,716)	—
<b>Comprehensive income (loss)</b>	<u>\$ 792,520</u>	<u>\$ (1,297,499)</u>	<u>\$ 1,373,712</u>	<u>\$ (3,387,475)</u>
<b>Net income (loss) per share:</b>				
<b>Basic</b>	<u>\$ 0.04</u>	<u>\$ (0.07)</u>	<u>\$ 0.07</u>	<u>\$ (0.18)</u>
<b>Diluted</b>	<u>\$ 0.04</u>	<u>\$ (0.07)</u>	<u>\$ 0.07</u>	<u>\$ (0.18)</u>
<b>Weighted-average shares outstanding:</b>				
<b>Basic</b>	<u>20,410,950</u>	<u>19,745,525</u>	<u>20,315,730</u>	<u>18,675,769</u>
<b>Diluted</b>	<u>22,364,694</u>	<u>19,745,525</u>	<u>22,080,338</u>	<u>18,675,769</u>

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

**GALAXY GAMING, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**  
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount				
<b>Beginning balance, December 31, 2020</b>	21,970,638	\$ 21,971	\$ 10,798,536	\$ (35,655,163)	\$ 37,691	\$ (24,796,965)
Net income	—	—	—	88,737	—	88,737
Foreign currency translation loss	—	—	—	—	(79,207)	(79,207)
Stock options exercised	50,000	50	10,949	—	—	10,999
Share-based compensation	55,000	55	316,585	—	—	316,640
<b>Balance, March 31, 2021</b>	22,075,638	22,076	11,126,070	(35,566,426)	(41,516)	(24,459,796)
Net income	—	—	—	550,455	—	550,455
Foreign currency translation gain	—	—	—	—	21,207	21,207
Stock options exercised	50,000	50	15,451	—	—	15,501
Share-based compensation	55,000	55	441,389	—	—	441,444
<b>Balance, June 30, 2021</b>	22,180,638	\$ 22,181	\$ 11,582,910	\$ (35,015,971)	\$ (20,309)	\$ (23,431,189)
Net income	—	—	—	874,236	—	874,236
Foreign currency translation loss	—	—	—	—	(81,716)	(81,716)
Stock options exercised	119,166	119	62,697	—	—	62,816
Share-based compensation	—	—	345,305	—	—	345,305
<b>Balance, September 30, 2021</b>	22,299,804	\$ 22,300	\$ 11,990,912	\$ (34,141,735)	\$ (102,025)	\$ (22,230,548)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount				
<b>Beginning balance, December 31, 2019</b>	18,017,944	\$ 18,018	\$ 5,795,636	\$ (33,446,276)	\$ —	\$ (27,632,622)
Net income	—	—	—	116,605	—	116,605
Stock options exercised	25,000	25	7,475	—	—	7,500
Share-based compensation	63,333	63	157,533	—	—	157,596
<b>Balance, March 31, 2020</b>	18,106,277	\$ 18,106	\$ 5,960,644	\$ (33,329,671)	\$ —	\$ (27,350,921)
Net loss	—	—	—	(2,206,582)	—	(2,206,582)
Stock options exercised	150,000	150	30,113	—	—	30,263
Share-based compensation	80,000	80	176,589	—	—	176,669
<b>Balance, June 30, 2020</b>	18,336,277	\$ 18,336	\$ 6,167,346	\$ (35,536,253)	\$ —	\$ (29,350,571)
Shares issued in connection with PGP asset acquisition	3,141,361	3,141	3,986,387	—	—	3,989,528
Net loss	—	—	—	(1,297,499)	—	(1,297,499)
Foreign currency translation loss	—	—	—	—	(19,084)	(19,084)
Stock options exercised	50,000	50	11,950	—	—	12,000
Share-based compensation	55,000	55	178,498	—	—	178,553
<b>Balance, September 30, 2020</b>	21,582,638	\$ 21,582	\$ 10,344,181	\$ (36,833,752)	\$ (19,084)	\$ (26,487,073)

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

**GALAXY GAMING, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30, 2021</b>	<b>September 30, 2020</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,513,428	\$ (3,387,475)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	2,160,217	1,499,927
Amortization of right-of-use assets	170,733	207,378
Amortization of debt issuance costs and debt discount	47,939	26,935
Bad debt expense	233,160	166,002
Gain on sale of property and equipment	(25,000)	—
Change in fair value of interest rate swap liability	(66,009)	(21,650)
Deferred income tax benefit	—	(492,807)
Share-based compensation	1,207,649	512,818
Unrealized foreign exchange loss	33,166	84,757
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(2,615,929)	1,333,515
Inventory	(293,360)	(123,359)
Income tax receivable/payable	(311,155)	(14,379)
Prepaid expenses and other current assets	394,457	54,953
Other assets	(112,629)	—
Accounts payable	(59,173)	552,166
Accrued expenses	1,069,409	(698,380)
Revenue contract liability	14,583	(707,171)
Operating lease liabilities	(141,167)	(254,363)
<b>Net cash provided by (used in) operating activities</b>	<b>3,220,319</b>	<b>(1,261,133)</b>
<b>Cash flows from investing activities:</b>		
Investment in intangible assets	(49,900)	—
Proceeds from sale of property and equipment	25,000	—
Acquisition of PGP assets, net of cash acquired	—	(6,266,335)
Acquisition of property and equipment	(60,069)	(38,712)
<b>Net cash used in investing activities</b>	<b>(84,969)</b>	<b>(6,305,047)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from draw on revolving loan	—	1,000,000
Proceeds from Paycheck Protection Program	—	835,300
Payments of debt issuance costs	(46,117)	—
Proceeds from stock option exercises	89,315	49,750
Principal payments on long-term debt	(1,697,380)	(1,264,322)
<b>Net cash (used in) provided by financing activities</b>	<b>(1,654,182)</b>	<b>620,728</b>
<b>Effect of exchange rate changes on cash</b>	<b>(72,686)</b>	<b>(72,340)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,408,482</b>	<b>(7,017,792)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>5,993,388</b>	<b>9,686,698</b>
<b>Cash and cash equivalents – end of period</b>	<b>\$ 7,401,870</b>	<b>\$ 2,668,906</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 300,026	\$ 462,959
Cash paid for income taxes	\$ 338,447	\$ 77,465
<b>Supplemental schedule of non-cash activities:</b>		
Shares issued in connection with PGP asset acquisition	\$ —	\$ 3,989,528
Right-of-use assets obtained in exchange for lease liabilities	\$ 28,604	\$ 1,383,052
Inventory transferred to assets deployed at client locations	\$ 213,648	\$ 27,668

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

**GALAXY GAMING, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. NATURE OF OPERATIONS**

Unless the context indicates otherwise, references to “Galaxy Gaming, Inc.,” “we,” “us,” “our,” or the “Company,” refer to Galaxy Gaming, Inc., a Nevada corporation (“Galaxy Gaming”).

We are an established global gaming company specializing in the design, development, acquisition, assembly, marketing and licensing of proprietary casino table games and associated technology, platforms and systems for the casino gaming industry. Casinos use our proprietary products and services to enhance their gaming operations and improve their profitability, productivity and security, as well as to offer popular cutting-edge gaming entertainment content and technology to their players. We market our products and services to online casinos worldwide and to land-based casino gaming companies in North America, the Caribbean, Central America, the United Kingdom, Europe and Africa as well as to cruise ship companies. We license our products and services for use solely in legalized gaming markets. We also license our content and distribute content from other companies to iGaming operators throughout the world.

**Share Redemption.** On May 6, 2019, we redeemed all 23,271,667 shares of our common stock held by Triangulum Partners, LLC (“Triangulum”), an entity controlled by Robert B. Saucier, Galaxy Gaming’s founder, and, prior to the redemption, the holder of a majority of our outstanding common stock. Our Articles of Incorporation (the “Articles”) provide that if certain events occur in relation to a stockholder that is required to undergo a gaming suitability review or similar investigative process, we have the option to purchase all or any part of such stockholder’s shares at a price per share that is equal to the average closing share price over the thirty calendar days preceding the purchase. The average closing share price over the thirty calendar days preceding the redemption was \$1.68 per share.

The consideration owed to Triangulum for the redemption is \$39,096,401 (the “Redemption Consideration Obligation”). See Note 10.

There is ongoing litigation between the Company and Triangulum related to the redemption and other matters. See Note 11.

**Membership Interest Purchase Agreement.** On August 21, 2020, the Company completed the acquisition of 100% of the member interests in Progressive Games Partners LLC (“PGP”). The entirety of the purchase price (\$10,414,528) and transaction-related costs (\$127,586) were allocated to customer relationships and are included in Other intangible assets, net, on the Company’s condensed consolidated balance sheets. The cash portion of the purchase price was \$6,425,000, and the balance of the purchase price was satisfied through the issuance of 3,141,361 shares of the Company’s common stock with a value of \$1.27 per share on the date of the acquisition. The shares issued are being held in escrow pending the performance of the assets acquired during the twelve months following the acquisition. See Note 7 to our audited financial statements included in Item 8 “Financial Statements and Supplementary Financial Information” of our Form 10-K for the fiscal year ended December 31, 2020, filed with the Securities and Exchange Commission (“SEC”) on March 31, 2021 (the “2020 10-K”) for further details. The Company also acquired certain receivables and payables in the net amount of \$581,885, which was to be remitted to the sellers of PGP as the receivables and payables were settled. In May 2021, the balance owed to the sellers of PGP was settled in full.

Management determined that, for accounting purposes, the PGP transaction did not meet the definition of a business combination and, therefore, was accounted for as an asset acquisition.

**COVID-19.** On March 11, 2020, the World Health Organization declared a pandemic related to the COVID-19 outbreak, which led to a global health emergency. The public health impact of the outbreak continues to remain largely unknown and still evolving. The related health crisis could continue to adversely affect the global economy, resulting in continued economic downturn that could impact demand for our products.

On March 17, 2020, the Company announced that it suspended billing to customers who had closed their doors due to the COVID-19 outbreak. As a result, we did not earn revenue for the use of our games by our physical casino customers during the time that they were closed. In general, the online gaming customers who license our games through our distributor remained and continue to remain in operation in spite of the COVID-19 crisis. We earned revenue from them during the crisis and expect to continue to do so, but potentially at levels that may be lower than we previously received.

Given the uncertainties around casino re-openings, we instituted a phased billing approach for our clients through fiscal year 2020, which resulted in us realizing substantially less revenue than we might otherwise expect. In addition, because of COVID-19-related financial pressures on our physical casino customers, there can be no assurance that our accounts receivable will be paid timely for revenues earned prior to the shutdowns. Finally, the Company was notified by some of the land-based casinos that they would be extending their payment terms.

The phased billing approach for our physical casino customers instituted in 2020 is no longer in effect. Physical casino customers who are now open are being billed at pre-COVID billing levels. Similar to 2020, our online gaming customers continue to generate revenue in 2021.



We also rely on third-party suppliers and manufacturers in China, many of whom were shut down or severely cut back production during some portion of 2020. Although this has not had a material effect on our supply chain, any future disruption of our suppliers and their contract manufacturers may impact our sales and operating results going forward.

Because of the uncertainties of COVID-19, the Company drew on its Revolving Loan in the amount of \$1,000,000 on March 12, 2020. Pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), the Federal Reserve created the Main Street Priority Loan Program ("MSPLP") to provide financing for small and medium-sized businesses. On October 26, 2020, the Company borrowed \$4,000,000 from Zions Bancorporation N.A., dba Nevada State Bank under this program. See Note 10.

Disruptions of the COVID-19 crisis continue to impact our results of operations. A significant portion of the Company's land-based customers have reopened at limited capacity after the restrictions due to the COVID-19 crisis were lifted. However, some customers have been required to close again due to local regulations and conditions, and some customers will remain closed through the remainder of 2021.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation.** The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and the rules of the SEC. In the opinion of management, the accompanying unaudited interim condensed financial statements contain all necessary adjustments (including all those of a recurring nature and those necessary in order for the financial statements to be not misleading) and all disclosures to present fairly our financial position and the results of our operations and cash flows for the periods presented.

These unaudited interim condensed financial statements should be read in conjunction with the financial statements and the related notes thereto included in our 2020 10-K.

The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

**Basis of accounting.** The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP.

**Use of estimates and assumptions.** We are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole, and information available from other outside sources. Our estimates affect reported amounts for assets, liabilities, revenues, expenses and related disclosures. Actual results may differ from initial estimates.

**Consolidation.** The financial statements are presented on a consolidated basis and include the results of the Company and its wholly owned subsidiary, PGP. All intercompany transactions and balances have been eliminated in consolidation.

**Reclassifications.** Certain accounts and financial statement captions in the prior periods have been reclassified to conform to the current period financial statement presentations.

**Cash and cash equivalents.** We consider cash on hand and cash in banks as cash. We consider certificates of deposit and other short-term securities with maturities of three months or less when purchased as cash equivalents. Our cash in bank balances are deposited in insured banking institutions, which are insured up to \$250,000 per account. To date, we have not experienced uninsured losses, and we believe the risk of future loss is negligible.

**Accounts receivable and allowance for doubtful accounts.** Accounts receivable are stated at face value less an allowance for doubtful accounts. Accounts receivable are non-interest bearing. The Company reviews the accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. The allowance for doubtful accounts is estimated based on specific customer reviews, historical collection trends and current economic and business conditions.

**Inventory.** Inventory consists of ancillary products such as signs, layouts and bases for the various games and electronic devices and components to support all our electronic enhancements used on casino table games ("Enhanced Table Systems"), and we maintain inventory levels based on historical and industry trends. We regularly assess inventory quantities for excess and obsolescence primarily based on forecasted product demand. Inventory is valued at the lower of net realizable value or cost, which is determined by the average cost method.

**Assets deployed at client locations, net.** Our Enhanced Table Systems are assembled by us and accounted for as inventory until deployed at our casino clients' premises (Note 6). Once deployed and placed into service at client locations, the assets are transferred from inventory and reported as assets deployed at client locations. These assets are stated at cost, net of accumulated depreciation. Depreciation on assets deployed at client locations is calculated using the straight-line method over a three-year period.

**Property and equipment, net.** Property and equipment are being depreciated over their estimated useful lives (three to five years) using the straight-line method of depreciation (Note 5). Property and equipment are analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable and exceeds their fair value.

**Goodwill.** Goodwill (Note 7) is assessed for impairment at least annually or at other times during the year if events or circumstances indicate that it is more-likely-than-not that the fair value of a reporting asset is below the carrying amount. If found to be impaired, the carrying amount will be reduced, and an impairment loss will be recognized.

**Other intangible assets, net.** The following intangible assets have finite lives and are being amortized using the straight-line method over their estimated economic lives as follows:

Patents	4 - 20 years
Client relationships	9 - 22 years
Trademarks	30 years
Non-compete agreements	9 years
Internally-developed software	3 years

Other intangible assets (Note 7) are analyzed for potential impairment at least annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable and exceeds the fair value, which is the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the intangible assets. No impairment was recorded for the three months ended September 30, 2021.

**Interest rates swap agreement.** In May 2018, the Company entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. The interest rate swap has not been designated a hedging instrument and is adjusted to fair value through earnings in the Company's statements of operations. The interest rate swap agreement matured on May 1, 2021.

**Fair value of financial instruments.** We estimate fair value for financial assets and liabilities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value, provides guidance for measuring fair value, requires certain disclosures and discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). ASC 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The estimated fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short-term nature. The estimated fair value of our long-term debt approximates its carrying value based upon our expected borrowing rate for debt with similar remaining maturities and comparable risk. The Company currently has no financial instruments measured at estimated fair value on a recurring basis based on valuation reports provided by counterparties.

**Leases.** We account for lease components (such as rent payments) separately from non-lease components (such as common-area maintenance costs, real estate and sales taxes and insurance costs). Operating and finance leases with terms greater than 12 months are recorded on the condensed consolidated balance sheets as right-of-use assets with corresponding lease liabilities. Lease expense is recognized on a straight-line basis using the discount rate implicit in each lease or our incremental borrowing rate at lease commencement date (Note 9).

**Revenue recognition.** We account for our revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. See Note 3.

**Costs of ancillary products and assembled components.** Ancillary products include pay tables (display of payouts), bases, layouts, signage and other items as they relate to support of specific proprietary games in connection with the licensing of our games. Assembled components represent the cost of the equipment, devices and incorporated software used to support our Enhanced Table Systems.

**Research and development.** We incur research and development ("R&D") costs to develop our new and next-generation products. Our products reach commercial feasibility shortly before the products are released, and therefore R&D costs are expensed as incurred. Employee-related costs associated with product development are included in R&D costs.

**Foreign currency translation.** The functional currency for PGP is the Euro. Gains and losses from settlement of transactions involving foreign currency amounts are included in other income or expense in the consolidated statements of operations. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in accumulated other comprehensive income or (loss) in the consolidated statements of changes in stockholders' deficit.

**Net income per share.** Basic net income per share is calculated by dividing net income by the weighted-average number of common shares issued and outstanding during the year. Diluted net income per share is similar to basic, except that the weighted-average number of shares outstanding is increased by the potentially dilutive effect of outstanding stock options and restricted stock, if applicable, during the year.

**Segmented Information.** We define operating segments as components of our enterprise for which separate financial information is reviewed regularly by the chief operating decision-makers to evaluate performance and to make operating decisions. We currently have two operating segments (land-based gaming and online gaming) which are aggregated into one reporting segment.

**Share-based compensation.** We recognize compensation expense for all restricted stock and stock option awards made to employees, directors and independent contractors. The fair value of restricted stock is measured using the grant date trading price of our stock. The fair value of stock option awards (Note 13) is estimated at the grant date using the Black-Scholes option-pricing model, and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. We have elected to recognize compensation expense for all options with graded vesting on a straight-line basis over the vesting period of the entire option. The determination of fair value using the Black-Scholes pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors. We estimate volatility based on historical volatility of our common stock, and estimate the expected term based on several criteria, including the vesting period of the grant and the term of the award. We estimate employee stock option exercise behavior based on actual historical exercise activity and assumptions regarding future exercise activity of unexercised, outstanding options.

**Other significant accounting policies.** See Note 2 in Item 8 “Financial Statements and Supplementary Financial Information” included in our 2020 10-K.

**Recently adopted accounting standards. Simplifying the Accounting for Income Taxes.** In December 2019, the FASB issued Accounting Standard (“ASU”) Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*(ASU 2019-12), which simplifies the accounting for income taxes. This guidance is effective for the first quarter of 2021 on a prospective basis. We have adopted the new standard effective January 1, 2021, and its adoption does not have a material impact on our consolidated financial statements.

**New accounting standards not yet adopted. Financial Instruments – Credit Losses.** In February 2020, the FASB issued ASU No. 2020-02, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2020-02 provides updated guidance on how an entity should measure credit losses on financial instruments and delayed the effective date of Topic 326 for smaller reporting companies until fiscal years beginning after December 15, 2022. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our condensed consolidated financial statements or related disclosures.

### NOTE 3. REVENUE RECOGNITION

**Revenue recognition.** We generate revenue primarily from the licensing of our intellectual property. We recognize revenue under recurring fee license contracts monthly as we satisfy our performance obligation, which consists of granting the customer the right to use our intellectual property. Amounts billed are determined based on flat rates or usage rates stipulated in the customer contract.

#### Disaggregation of revenue

The following table disaggregates our revenue by geographic location for the following periods:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2021	2020	2021	2020
North America and Caribbean	\$ 2,476,619	\$ 971,147	\$ 7,394,096	\$ 4,262,408
Europe, Middle East and Africa	2,805,169	826,686	6,920,031	2,693,714
Total revenue	\$ 5,281,788	\$ 1,797,833	\$ 14,314,127	\$ 6,956,122

**Contract liabilities.** Amounts billed and cash received in advance of performance obligations fulfilled are recorded as contract liabilities and recognized as performance obligations are fulfilled.

**Contract Assets.** The Company’s contract assets consist solely of unbilled receivables which are recorded when the Company recognizes revenue in advance of billings. Unbilled receivables totaled \$942,159 and \$502,860 for the periods ended September 30, 2021 and December 31, 2020, and are included in the accounts receivable balance in the accompanying condensed consolidated balance sheets.

**NOTE 4. INVENTORY**

Inventory consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Raw materials and component parts	\$ 397,008	\$ 300,244
Finished goods	351,229	368,281
Inventory, net	<u>\$ 748,237</u>	<u>\$ 668,525</u>

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment, net, consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Furniture and fixtures	\$ 312,639	\$ 312,639
Automotive vehicles	171,672	215,127
Office and computer equipment	389,628	332,544
Leasehold improvements	35,531	32,547
Property and equipment, gross	909,470	892,857
Less: accumulated depreciation	(792,465)	(776,133)
Property and equipment, net	<u>\$ 117,005</u>	<u>\$ 116,724</u>

For the three months ended September 30, 2021 and 2020, depreciation expense related to property and equipment was \$7,570 and \$22,153, respectively. For the nine months ended September 30, 2021 and 2020, depreciation expense related to property and equipment was \$59,788 and \$67,469, respectively.

**NOTE 6. ASSETS DEPLOYED AT CLIENT LOCATIONS**

Assets deployed at client locations, net, consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Enhanced table systems	\$ 1,056,869	\$ 890,560
Less: accumulated depreciation	(755,663)	(658,404)
Assets deployed at client locations, net	<u>\$ 301,206</u>	<u>\$ 232,156</u>

For the three months ended September 30, 2021 and 2020, depreciation expense related to assets deployed at client locations was \$1,575 and \$51,778, respectively. For the nine months ended September 30, 2021 and 2020, depreciation expense related to assets deployed at client locations was \$144,598 and \$174,334, respectively.

**NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS**

**Goodwill.** A goodwill balance of \$1,091,000 was created as a result of a transaction completed in October 2011 with Prime Table Games, LLC (“PTG”).

**Other intangible assets, net.** Other intangible assets, net consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Patents	\$ 13,507,997	\$ 13,507,997
Customer relationships	13,942,115	13,942,115
Trademarks	2,880,967	2,880,967
Non-compete agreements	660,000	660,000
Software	233,314	183,415
Other intangible assets, gross	31,224,393	31,174,494
Less: accumulated amortization	(17,043,429)	(15,087,598)
Other intangible assets, net	<u>\$ 14,180,964</u>	<u>\$ 16,086,896</u>

For the three months ended September 30, 2021 and 2020, amortization expense related to other intangible assets was \$53,330 and \$501,706, respectively. For the nine months ended September 30, 2021 and 2020, amortization expense related to other intangible assets was \$1,955,832 and \$1,258,124, respectively.

Estimated future amortization expense is as follows:

	<b>Twelve Months Ending September 30,</b>	<b>Total</b>
2022	\$	2,601,469
2023		1,448,320
2024		1,437,093
2025		1,424,276
2026		1,424,276
Thereafter		5,845,530
Total amortization	<u>\$</u>	<u>14,180,964</u>

**NOTE 8. ACCRUED EXPENSES**

Accrued expenses consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Share redemption consideration	\$ 315,294	\$ 510,776
Commissions and royalties	869,068	398,096
Payroll and related	931,393	173,487
Interest	144,727	95,879
Income tax payable	3,003	42,218
Other	237,599	112,576
Total accrued expenses	<u>\$ 2,501,084</u>	<u>\$ 1,333,032</u>

**NOTE 9. LEASES****Lessee**

We have operating leases for our corporate office, two satellite facilities in the state of Washington and for certain equipment. We account for lease components (such as rent payments) separately from the non-lease components (such as common-area maintenance costs, real estate and sales taxes and insurance costs). The discount rate represents the interest rate implicit in each lease or our incremental borrowing rate at lease commencement date.

On September 21, 2021, we executed a third amendment to one of our satellite facilities to amend the lease expiration date from December 31, 2021 to December 31, 2023, with monthly base rents of \$1,025 from January 1, 2022 to December 31, 2023. As a result of the amendment, we recorded a \$3,293 increase to operating lease right-of-use assets and operating lease liabilities.

As of September 30, 2021, our leases have remaining lease terms ranging from three months to 63 months.

Supplemental balance sheet information related to leases is as follows:

	<b>As of September 30, 2021</b>	
	<b>Amount</b>	<b>Classification</b>
<b>Operating leases:</b>		
Operating lease right-of-use lease assets	\$ 1,225,692	
Operating lease current liabilities	\$ 222,968	Current portion of operating lease liabilities
Operating lease long-term liabilities	1,075,560	Long-term operating lease liabilities
<b>Total operating lease liabilities</b>	<b>\$ 1,298,528</b>	
<b>Weighted-average remaining lease term:</b>		
Operating leases	5.1 years	
<b>Weighted-average discount rate:</b>		
Operating leases	4.2%	

The components of lease expense are as follows:

	<b>Three Months Ended September 30, 2021</b>	
	<b>Amount</b>	<b>Classification</b>
<b>Operating lease cost</b>	<b>\$ 70,755</b>	Selling, general and administrative expense
	<b>Nine Months Ended September 30, 2021</b>	
	<b>Amount</b>	<b>Classification</b>
<b>Operating lease cost</b>	<b>\$ 211,366</b>	Selling, general and administrative expense

Supplemental cash flow information related to leases is as follows:

	<b>Nine Months Ended September 30, 2021</b>	
	<b>Amount</b>	<b>Classification</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 183,301	Net income
<b>Right-of-use assets obtained in exchange for lease liabilities:</b>		
Operating leases	\$ 28,604	Supplemental cash flow information

As of September 30, 2021, future maturities of our operating lease liabilities are as follows:

<b>Twelve Months Ending September 30,</b>	<b>Amount</b>
2022	\$ 222,968
2023	229,705
2024	238,179
2025	255,707
2026	277,812
Thereafter	74,157
<b>Total lease liabilities</b>	<b>\$ 1,298,528</b>

#### NOTE 10. LONG-TERM LIABILITIES

Long-term liabilities consisted of the following at:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Nevada State Bank credit agreement	\$ 7,251,800	\$ 8,413,184
Main Street Priority Loan	4,000,000	4,000,000
Redemption Consideration Obligation	39,096,401	39,096,401
Vehicle notes payable	5,813	22,614
Insurance notes payable	—	519,194
Long-term liabilities, gross	50,354,014	52,051,393
Less: Unamortized debt issuance costs	(138,829)	(137,817)
Long-term liabilities, net of debt issuance costs	50,215,185	51,913,576
Less: Current portion	(2,607,913)	(2,222,392)
Long-term liabilities, net	<u>\$ 47,607,272</u>	<u>\$ 49,691,184</u>

**Share Redemption Consideration Obligation.** On May 6, 2019, we issued a promissory note in the face amount of \$9,096,401 to Triangulum in connection with the share redemption disclosed in Note 1. In the litigation that followed the share redemption (Note 11), Triangulum is disputing, among other things, the validity of the note and has not accepted its terms. Because Triangulum disputes the promissory note issued by the Company and its terms, the promissory note has not been given accounting effect in the Company's financial statements. The Company has instead recorded a long-term obligation payable to Triangulum, based on the redemption value specified in our Articles of Incorporation. The obligation is classified as long-term because we do not expect that a final agreement with respect to the litigation will be reached between the parties in the next twelve months. We may repay the Redemption Consideration Obligation at any time but no later than May 6, 2029; however, there can be no assurance that Triangulum will accept such payments. Additional share redemption consideration is being accrued at 2% on the Redemption Consideration Obligation. We paid the first and second annual payments in the amounts of \$781,928 on May 5, 2020 and May 6, 2021. Both payments were accepted by Triangulum. The Redemption Consideration Obligation is unsecured and is subordinated to our existing and future indebtedness. On October 7, 2021, Galaxy announced that it had entered into a Settlement Agreement with Triangulum and Robert Saucier. The Settlement Agreement is contingent upon payment to Triangulum in the amount of \$39,096,401, plus accrued and unpaid interest at a rate of 2% per annum from May 6, 2021, until the date of payment. Upon payment, the Share Redemption Consideration Obligation will be extinguished.

**Nevada State Bank ("NSB") Credit Agreement.** The Company is party to a Credit Agreement with Zions Bancorporation, N.A. dba Nevada State Bank (as amended, the "Credit Agreement"). The Credit Agreement provides for a Term Loan in the initial amount of \$11,000,000 and a Revolving Loan in the amount of \$1,000,000. On March 12, 2020, the Company drew down \$1,000,000 on the Revolving Loan component of the Credit Agreement. At September 30, 2021, the principal amount outstanding under the Term Loan component of the Credit Agreement was \$6,251,800, bringing the total amount outstanding under the Credit Agreement at September 30, 2021, to \$7,251,800.

On March 29, 2021, the Company entered into an amended and restated credit agreement with Zions Bancorporation, N.A. dba Nevada State Bank ("the A&R Credit Agreement"). The A&R Credit Agreement replaced the original Credit Agreement entered into by the Company with Zions Bancorporation, N.A. dba Nevada State Bank on April 24, 2018 and last modified on November 16, 2020. The A&R Credit Agreement provides for a Term Loan in the amount of \$7,022,300 and a Revolving Loan in the amount of \$1,000,000. If not paid earlier, amounts outstanding under the Revolving Loan mature on April 24, 2022, and amounts outstanding under the Term Loan mature on April 24, 2023.

Under the A&R Credit Agreement, outstanding balances accrue interest based on one-month U.S. dollar London interbank offered rate ("LIBOR") plus an applicable margin of 3.50% or 4.00%, depending on our Total Leverage Ratio (as defined in the A&R Credit Agreement). Effective December 31, 2021, LIBOR will no longer serve as a reference rate for bank loans, among other investment classes. The A&R Credit Agreement stipulates that a substitute index rate will be selected and used in lieu of LIBOR.

The A&R Credit Agreement contains affirmative and negative financial covenants (as defined in the A&R Credit Agreement) and other restrictions customary for borrowings of this nature. In particular, we are required to maintain (i) a quarterly minimum Fixed Charge Coverage ratio of 1.25x; (ii) a quarterly maximum Total Leverage ratio of 22.50x for the quarter ending March 31, 2021, 10.00x for quarter ending June 30, 2021, 6.50x for the quarter ending September 30, 2021 with semi-annual step-downs of 0.25x commencing December 31, 2021 and quarterly thereafter; (iii) a quarterly maximum Senior Leverage ratio of 5.25x for the quarter ending March 31, 2021, 2.50x for the quarter ending June 30, 2021 and 2.00x quarterly thereafter; (iv) a quarterly Minimum EBITDA covenant of \$2.4 million for each of the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021 and \$8.0 million quarterly thereafter; (v) a quarterly Minimum Liquidity covenant requiring the Company to have cash and cash equivalents of no less than \$1.5 million at quarter ends through and including June 30, 2021 and \$2.5 million quarterly thereafter; and (vi) a yearly maximum Maintenance Capital Expenditure covenant of 5% of total revenues for the prior year. The Company was in compliance with its Fixed Charge Coverage ratio, Senior Leverage ratio, Total Leverage ratio and Minimum Liquidity covenants as of June 30, 2021. However, the Company was not in compliance with its Minimum EBITDA covenant as of June 30, 2021. On May 13, 2021, the Company and NSB entered into a Forbearance to the A&R Credit Agreement, in which NSB agreed to forbear from exercising any of its rights or remedies that would result from the potential breaches of the Minimum EBITDA and Total Leverage ratio covenant for the quarters ending June 30, 2021 and September 30, 2021. The Company was in compliance with its Fixed Charge Coverage ratio, Senior Leverage ratio, Minimum EBITDA and Minimum Liquidity covenants as of September 30, 2021. However, the Company was not in compliance with its Total Leverage ratio as of September 30, 2021. On May 13, 2021, the Company and NSB entered into a Forbearance to the A&R Credit Agreement, in which NSB agreed to forbear from exercising any of its rights or remedies that would result from the potential breaches of the Minimum EBITDA and Total Leverage ratio covenant for the quarters ending June 30, 2021 and September 30, 2021.

The obligations under the A&R Credit Agreement are secured by substantially all of the assets of the Company. The Company's wholly owned subsidiary, PGP, is also a guarantor of the A&R Credit Agreement and related agreements.

**Main Street Priority Loan Borrowings.** On October 26, 2020, the Company obtained an unsecured loan of \$4,000,000 through Zions Bancorporation, N.A. dba Nevada State Bank under section 13(3) of the Federal Reserve Act.

The MSPLP bears interest at a rate of three-month U.S. dollar LIBOR plus 300 basis points (initially 3.215%), and interest payments during the first year will be deferred and added to the loan balance. The MSPLP has a five-year final maturity, with 15% of principal amortizing in each of years three and four. The MSPLP, plus accrued and unpaid interest, may be prepaid at any time at par. While the MSPLP is outstanding, and for one year after it is repaid in full, the Company may not 1) repurchase stock, pay dividends or make other distributions, or 2) pay compensation to executive officers that exceeds the total compensation they received in 2019. The entire outstanding principal balance of the MSPLP, together with all accrued and unpaid interest, is due and payable in full on October 26, 2025. The terms of the MSPLP provide for customary events of default, including, among others, those relating to a failure to make payment, bankruptcy, breaches of representations and covenants, and the occurrence of certain events. The MSPLP is secured by a security interest in the assets of the Company, which security interest is pari passu with the security interest granted under the Credit Agreement.

As of September 30, 2021, future maturities of our long-term liabilities are as follows:

<b>Twelve Months Ending September 30,</b>	<b>Total</b>
2022	\$ 2,607,913
2023	4,649,700
2024	600,000
2025	600,000
2026	2,800,000
Thereafter	39,096,401
Long-term liabilities, gross	<u>\$ 50,354,014</u>



## NOTE 11. COMMITMENTS AND CONTINGENCIES

**Concentration of risk.** We are exposed to risks associated with clients who represent a significant portion of total revenues. We do not believe the loss of any single customer would materially impact our operating results, as our licenses are within well-established markets. For the nine months ended September 30, 2021 and 2020, respectively, we had the following client revenue concentrations:

		Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020		Accounts Receivable September 30, 2021		Accounts Receivable December 31, 2020
	Location	Revenue (a)	Revenue				
Client A	Europe	27.1 %	17.0 %	\$	433,864	\$	348,781
Client B	North America	10.3 %	8.6 %	\$	444,961	\$	400,663

- (a) Concentrations are exaggerated in the nine months ended September 30, 2021, since Clients A and B were not affected by the closures of casinos in the U.K. that affected the business overall.

**Legal proceedings.** In the ordinary course of conducting our business, we are, from time to time, involved in various legal proceedings, administrative proceedings, regulatory government investigations and other matters, including those in which we are a plaintiff or defendant, that are complex in nature and have outcomes that are difficult to predict.

As discussed in Note 1, we redeemed the shares of our common stock held by Triangulum, an entity controlled by Robert B. Saucier, the Company's founder, and, prior to the redemption, the holder of a majority of our outstanding common stock.

On May 6, 2019, the Company redeemed the shares of our common stock held by Triangulum. Also on May 6, 2019, the Company filed a lawsuit seeking: (i) a declaratory judgment that it acted lawfully and in full compliance with the Articles when it redeemed the Triangulum shares and (ii) certain remedies for breach of fiduciary duty and breach of contract by Triangulum and its Managing Member, Mr. Saucier (the "Triangulum Lawsuit"). The suit alleges that the redemption and the other relief sought by the Company are appropriate and in accordance with the Articles.

The defendants to the Triangulum Lawsuit responded to the complaint, and Triangulum filed counterclaims. Triangulum also filed a Motion seeking a mandatory injunction requiring the Company to either reissue shares to Triangulum or reissue shares to be held in a constructive trust for Triangulum (the "Injunction Motion"). On July 11, 2019, the Nevada district court denied Triangulum's Injunction Motion, finding, among other things, that the business judgment rule applies to the Board's redemption decisions and the decisions were in the Company's best interests. On September 6, 2019, Triangulum appealed the denial of the Injunction Motion to the Nevada Supreme Court. The Company submitted its brief in opposition, and Triangulum filed its reply brief. On January 13, 2021, the Nevada Supreme Court heard oral argument on Triangulum's appeal. On March 26, 2021, the Nevada Supreme Court affirmed the ruling of the District Court denying Triangulum's Injunction Motion, the effect of which is to preclude the re-issuance of any shares of Galaxy stock to Triangulum.

On October 18, 2019, Saucier filed counterclaims against the Company and its Chairman of the Board, Mark Lipparelli, including a breach of contract claim alleging that the Company was obligated to pay Saucier his year-end bonus despite his resignation. The Company and Chairman Lipparelli filed an answer to the counterclaims.

Subsequent to its original counterclaims, Triangulum filed amended counterclaims, which the Company and its Directors moved to dismiss on a number of legal grounds (the "Motion to Dismiss"). The Court denied the Motion to Dismiss. The Company and its Directors filed a writ petition challenging the ruling, which the Nevada Supreme Court denied on January 23, 2020.

On May 6, 2020, Saucier made a demand of the Company under our Bylaws and an Indemnification Agreement between Saucier and the Company, for indemnity and advancement of funds seeking repayment of his attorneys' fees and expenses he allegedly incurred in connection with the Company's claims against him in the Triangulum Lawsuit. An independent counsel, selected per the terms of the Indemnification Agreement, concluded that Saucier was entitled to a small amount of indemnity funds related to the time he was employed by the Company, but denied an entitlement to indemnification thereafter.

On May 19, 2020, Saucier commenced a separate action in Nevada district court by filing a complaint he verified as true, seeking advancement of indemnification fees to which he claims an entitlement under the Bylaws and an Indemnification Agreement (the "Advancement Lawsuit"). The Company filed its opposition on June 4, 2020. Saucier's Motion was denied in a hearing that occurred on June 24, 2020. Saucier filed a notice of his appeal of the Nevada district court's decision in the Advancement Lawsuit to the Nevada Supreme Court on August 10, 2020. Saucier subsequently moved for attorneys' fees related to the filing of the Advancement Lawsuit, which the Nevada district court granted, and the Company filed a notice of appeal to the Nevada Supreme Court. The appeal of the denial of Advancement to Saucier is fully briefed by the parties and the parties await a hearing date from the Nevada Supreme Court. Galaxy's appeal of the first request of the grant of lawyer's fees in litigating the Advancement action, is fully briefed by the parties. The parties await a hearing date on both matters from the Nevada Supreme Court. Saucier filed a separate supplemental motion for attorneys' fees, which was denied by the Nevada district court, finding the fees incurred to be unreasonable, among other things. Saucier also appealed this ruling of the Nevada district court. Briefing on this third related matter began June 6, 2021.

On July 22, 2020, in the Triangulum Lawsuit, the Company and its Directors filed a special motion to dismiss most of Triangulum and Saucier's counterclaims under Nevada anti-SLAPP statute (Strategic Lawsuit Against Public Participation) because Triangulum and Saucier seek to impose liability on the Company and its Directors based upon their privileged communications with regulators. The Nevada district court denied the motion, and the Company and its Directors appealed the order to the Nevada Supreme Court. Discovery in the Triangulum Lawsuit is stayed pending the outcome of this appeal. The appeal is currently being briefed by the parties.

The appeals to the Nevada Supreme Court by both Saucier and the Company in the Triangulum Lawsuit and the Advancement Lawsuit were referred to the Nevada Supreme Court's mandatory Settlement Program. A consolidated settlement conference occurred on November 16, 2020, with no resolution of any of the issues on appeal or the lawsuit. The Nevada Supreme Court subsequently issued briefing schedules on the three appeals.

On November 24, 2020, Triangulum filed a Motion for Partial Summary Judgment in the Triangulum Lawsuit in the Nevada district court, seeking a ruling that the Company violated Nevada law and its Articles by issuing a promissory note as consideration for the redeemed shares and that the redemption was ineffective as a matter of law (the "Triangulum MPSJ"). The Company opposed Triangulum's MPSJ and filed its own Counter-motion for Summary Judgment (the "CMSJ"), seeking a ruling that as a matter of law the business judgment rule applies and prohibits any judicial review of the Board's decisions related to the redemption. During the January 20, 2021 hearing on both motions, the Nevada district court denied Triangulum's MPSJ, finding that Nevada statutes allow for the payment of redemption consideration in the form of a promissory note and that the Company's decisions to redeem and to issue a promissory note as consideration for the redemption are subject to the business judgment rule. The court further found again that the redeemed shares have been actually cancelled and cannot be placed in a constructive trust. The court also denied the Company's CMSJ, without prejudice for the Company to refile after further discovery. On April 23, 2021, Triangulum appealed the District court's denial of its MPSJ. Galaxy also appealed the denial of its CMSJ. Briefing on the appeals will begin in September 2021.

On December 18, 2020, Saucier filed a separate lawsuit in Nevada district court (which was served on January 21, 2021), alleging breach of contract related to his demand for indemnity from the Company (the "Indemnity Lawsuit"). Similar to the Company's position in the Advancement Lawsuit discussed above, the Company denies that he is entitled to indemnity and moved to dismiss the action on February 16, 2021. The Company filed a Motion to Reassign the case to the Judge presiding over the Triangulum Lawsuit and the Advancement Lawsuit. On February 18, 2021, the Company's Motion to Reassign was granted. On February 16, 2021, the Company filed a Motion to Dismiss the Indemnity Lawsuit. The Company's Motion to Dismiss was denied on April 19, 2021. The Company filed its Answer to the Indemnity Lawsuit.

As mentioned above, discovery in the Triangulum Lawsuit has been stayed as a result of the Company's appeal of the Anti-SLAPP motion decision to the Nevada Supreme Court. As such, the previously set April 2021 trial date cannot proceed until the discovery stay is lifted and after additional discovery proceeds.

On October 7, 2021, the Company announced that it had entered into a Settlement Agreement with Triangulum and Robert Saucier. The Settlement Agreement is contingent upon payment to Triangulum in the amount of \$39,096,401, plus accrued and unpaid interest at a rate of two percent (2%) from May 6, 2021 until the date of payment. In connection with the Settlement Agreement, the parties submitted joint stipulations to stay all matters in the litigation, including appeals. The courts entered orders effectively staying the matters until the matters have been dismissed or until January 7, 2022, at which time the parties will file case status reports. The Company is in discussions with parties to raise the capital needed to pay the settlement amount by December 31, 2021. If the Company does not make the payment by December 31, 2021, the Settlement Agreement will expire unless extended by the consent of all parties.

In September 2018, we were served with a complaint by TableMax Corporation ("TMAX") regarding an Operation and License Agreement executed between TMax and Galaxy in February 2011 (the "TMAX Agreement"). We filed an answer denying the allegations and filed a partial motion for summary judgment seeking dismissal of the plaintiff's claims. The suit was dismissed, subject to the right of the plaintiff to file an amended complaint on or before March 20, 2019. The plaintiff did not file an amended complaint within the time period set by the Judge. After that time, the Company considered the matter closed. TMAX filed a Motion for Leave to Amend their Complaint, which was granted by the Judge on May 11, 2020. On May 26, 2020, TMAX filed an Amended Complaint against the Company and other Co-Defendants. The Company filed a Motion To Enforce Settlement Or, In The Alternative, Motion To Dismiss And/Or For Summary Judgement and Request For Sanctions, on April 30, 2021. On June 22, 2021, the Company's Motion to Dismiss was granted, with prejudice to the right of TMAX to file an amended complaint. The Company considers the matter closed.

An unexpected adverse judgment in any pending litigation could cause a material impact on our business operations, intellectual property, results of operations or financial position. Unless otherwise expressly stated, we believe costs associated with litigation will not have a material impact on our financial position or liquidity but may be material to the results of operations in any given period and accordingly, no provision for loss has been reflected in the accompanying financial statements related to these matters.

**Royalty Agreements.** Certain of the Company's licensing contracts include an initial one-time payment and future royalty payments dependent upon future sales.

**NOTE 12. INCOME TAXES**

Our forecasted annual effective tax rate (“AETR”) at September 30, 2021 was 10.4%, as compared to 12.0% at September 30, 2020. This decrease was primarily due to excess tax benefits from stock-based compensation, utilization of tax credits, foreign rate differential, Subpart F inclusion and a change in valuation allowance as a result of changes in estimates of current-year ordinary income considered in determining the forecasted AETR.

For the nine months ended September 30, 2021 and 2020, our effective tax rate (“ETR”) was 0.5% and 12.7%, respectively. The decrease in the ETR for the nine months ended September 30, 2021 is a result of favorable discrete items related to excess tax benefits from stock-based compensation that were greater than the previous comparable period.

**NOTE 13. SHARE-BASED COMPENSATION****Stock Options**

On May 10, 2018, the Board ratified and confirmed the 2014 Equity Incentive Plan (the “2014 Plan”). The 2014 Plan is a broad-based plan under which shares of our common stock are authorized for issuance for awards, including stock options, stock appreciation rights, restricted stock, and cash incentive awards to members of our Board, executive officers, employees and independent contractors. As of September 30, 2021, a total of 7,550,750 shares of our common stock were authorized for issuance. As of September 30, 2021, 933,701 shares remained available for issuance as new awards under the 2014 Plan.

During the nine months ended September 30, 2021 and 2020, we issued 90,000 and 465,000 options to purchase our common stock, respectively, to members of our Board, executive officers, employees and independent contractors. The fair value of all stock options granted for the nine months ended September 30, 2021 and 2020 was determined to be \$162,252 and \$435,639, respectively, using the Black-Scholes option pricing model with the following assumptions:

	<b>Options Issued Nine Months Ended September 30, 2021</b>	<b>Options Issued Nine Months Ended September 30, 2020</b>
Dividend yield	0 %	0 %
Expected volatility	61.12% - 68.74%	70.98% - 76.97%
Risk-free interest rate	0.48% - 0.98%	0.27% - 1.39%
Expected life (years)	5.00	5.00

A summary of stock option activity is as follows:

	<b>Common Stock Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>
Outstanding – December 31, 2020	2,982,000	\$ 1.08	\$ 2,101,780	2.35
Issued	90,000	3.38	—	—
Exercised	(219,166)	0.41	(740,953)	—
Forfeited or expired	(42,000)	1.04	—	—
Outstanding – September 30, 2021	<u>2,810,834</u>	\$ 1.20	\$ 8,793,377	1.83
Exercisable – September 30, 2021	<u>2,095,833</u>	\$ 1.00	\$ 6,980,567	1.34

A summary of unvested stock option activity is as follows:

	<b>Common Stock Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>
Unvested – December 31, 2020	845,000	\$ 1.55	\$ 197,608	3.83
Granted	90,000	3.38	—	—
Vested	(178,333)	1.59	—	—
Forfeited	(41,666)	1.04	—	—
Unvested – September 30, 2021	<u>715,001</u>	\$ 1.79	\$ 1,812,810	3.27

As of September 30, 2021, our unrecognized share-based compensation expense associated with the stock options issued was \$70,548, which will be amortized over a weighted-average period of 1.93 years.

#### **Restricted Awards**

During the nine months ended September 30, 2021, we issued an aggregate of 110,000 restricted shares of our common stock valued at \$360,250 to our Board members in consideration of their service on the Board. These shares vested immediately on the grant date. An additional 80,000 restricted shares of our common stock valued at \$81,600 were issued to an employee of the Company on February 17, 2021. These shares were granted in consideration of the individual's service to the Company. These shares vest on November 11, 2021. As of September 30, 2021, there were 2,291,133 restricted shares outstanding. Of the restricted shares outstanding, 235,000 restricted shares were unvested.

#### **NOTE 14. SUBSEQUENT EVENTS**

On October 7, 2021, the Company announced that it had entered into a Settlement Agreement with Triangulum and Robert Saucier. The Settlement Agreement is contingent upon payment to Triangulum in the amount of \$39,096,401, plus accrued and unpaid interest at a rate of two percent (2%) from May 6, 2021 until the date of payment. In connection with the Settlement Agreement, the parties submitted joint stipulations to stay all matters in the litigation, including appeals. The courts entered orders effectively staying the matters until the matters have been dismissed or until January 7, 2022, at which time the parties will file case status reports.

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

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources as of and for the three and nine months ended September 30, 2021 and 2020. This discussion should be read together with our audited consolidated financial statements and related notes included in Item 8 Financial Statements and Supplementary Financial Information included in our 2020 10-K. Some of the information contained in this discussion includes forward-looking statements that involve risks and uncertainties; therefore our "Special Note Regarding Forward-Looking Statements" should be reviewed for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, such forward-looking statements.*

### OVERVIEW

We develop, acquire, assemble and market technology and entertainment-based products and services for the gaming industry for placement on casino floors and on legal internet gaming sites. Our products and services primarily relate to licensed casino operators' table games activities and focus on either increasing their profitability, productivity and security or expanding their gaming entertainment offerings in the form of proprietary table games, electronically enhanced table game platforms, fully-automated electronic tables and other ancillary equipment. In addition, we license intellectual property to legal internet gaming operators. Our products and services are offered in highly regulated markets throughout the world. Our products are assembled at our headquarters in Las Vegas, Nevada, as well as outsourced for certain sub-assemblies in the United States.

**Results of operations for the three months ended September 30, 2021 and 2020.** For the three months ended September 30, 2021, we generated gross revenues of \$5,281,788 compared to \$1,797,833 for the comparable prior-year period, representing an increase of \$3,483,955, or 193.8%. This increase was directly attributable to the re-opening of a significant portion of our land-based customers after the restrictions due to the COVID-19 crisis were lifted. Also, our online gaming revenues increased significantly due primarily to the acquisition of PGP in August of 2020 as well as to the opening of new markets in the U.S.

Selling, general and administrative expenses for the three months ended September 30, 2021 were \$2,740,328 compared to \$1,833,723 for the comparable prior-year period, representing an increase of \$906,605, or 49.4%. This increase was due to higher internal labor and related expenses (base salary, payroll-related taxes, bonus accrual and travel). Also, higher insurance payments related to the financed D&O policy contributed to the higher current period expenses. This increase was offset by a decrease in legal fees related to the Triangulum Lawsuit and overall general business. In Q3 2021, the Company incurred \$95,894 in legal expenses associated with the Triangulum Lawsuit as compared to \$183,059 for the comparable prior-year period.

Research and development expenses for the three months ended September 30, 2021 were \$156,768, compared to \$97,081 for the comparable prior-year period, representing an increase of \$59,687, or 61.5%. This increase was primarily due to higher internal labor and related expenses (base salary, payroll-related taxes, commissions and bonus accrual).

Share-based compensation expenses for the three months ended September 30, 2021 were \$449,564, as compared to \$178,553 for the comparable prior-year period, representing an increase of \$271,011, or 151.8%. This increase was due to the quarterly restricted shares granted to our Board members being issued at a higher stock price than the comparable prior-year period. The increase was also due to increased amortization related to restricted shares being issued to two employees and a contractor of the Company in November 2020 and February 2021.

As a result of the changes described above, income from operations increased \$2,084,646 or 232.1% to \$1,186,343 for the three months ended September 30, 2021, compared to a loss of (\$898,303) for the comparable prior-year period.

Total interest expense decreased \$32,660, or 20.2%, to \$129,422 for the three months ended September 30, 2021, compared to \$162,082 for the comparable prior-year period. The decrease was mainly attributable to lower interest expense on the Term Loan due to lower balances and lower interest rates.

Share redemption consideration was \$195,482 in 2021 compared to \$195,482 in 2020. The share redemption consideration is related to the Triangulum Redemption Consideration Obligation.

Income tax benefit was (\$21,186) for the three months ended September 30, 2021, compared to income tax expense of \$133,708 for the comparable prior-year period. The decrease in expense is primarily a result of favorable discrete items related to excess tax benefits from stock-based compensation.

**Results of operations for the nine months ended September 30, 2021 and 2020.** For the nine months ended September 30, 2021, we generated gross revenues of \$14,314,127 compared to \$6,956,122 for the comparable prior-year period, representing an increase of \$7,358,005, or 105.8%. This increase was directly attributable to the re-opening of a significant portion of our land-based customers

after the restrictions due to the COVID-19 crisis were lifted. Also, our online gaming revenues increased significantly due primarily to the acquisition of PGP in August of 2020 as well as to the opening of new markets in the U.S.

Selling, general and administrative expenses for the nine months ended September 30, 2021 were \$7,984,035 compared to \$7,264,410 for the comparable prior-year period, representing an increase of \$719,625, or 9.9%. This increase was due to higher insurance payments related to the financed D&O policy and higher accounting and consulting fees. These increases were offset by a decrease in legal fees related to the Triangulum Lawsuit and overall general business. For the nine months ended September 30, 2021, the Company incurred \$425,540 in legal expenses associated with the Triangulum Lawsuit as compared to \$836,415 for the nine months ended September 30, 2020.

Research and development expenses for the nine months ended September 30, 2021 were \$405,327, compared to \$391,333 for the comparable prior-year period, representing an increase of \$13,994, or 3.6%. This increase was primarily due to higher internal labor and related expenses (base salary, payroll-related taxes and bonus expense).

Share-based compensation expenses for the nine months ended September 30, 2021 were \$1,207,649, as compared to \$512,818 for the comparable prior-year period, representing an increase of \$694,831, or 135.5%. This increase was due to the quarterly restricted shares granted to our Board members being issued at a higher stock price than the comparable prior-year period. The increase was also due to increased amortization related to restricted shares being issued to two employees and a contractor of the Company in November 2020 and February 2021.

As a result of the changes described above, income from operations increased \$5,249,908 or 190.7% to \$2,496,687 for the nine months ended September 30, 2021, compared to a loss of \$2,753,221 for the comparable prior-year period.

Total interest expense decreased \$56,448, or 11.1%, to \$450,474 for the nine months ended September 30, 2021, compared to \$506,922 for the comparable prior-year period. The decrease was mainly attributable to lower interest expense on the Term Loan due to lower balances and lower interest rates.

Share redemption consideration was \$586,446 in 2021 compared to \$586,446 in 2020. The share redemption consideration is related to the Triangulum Redemption Consideration Obligation.

Income tax expense was \$7,000 for the nine months ended September 30, 2021, compared to income tax benefit of (\$492,807) for the comparable prior-year period. The increase in expense is primarily a result of improved business conditions in the current period following the COVID-19 pandemic as well as favorable discrete items related to excess tax benefits from stock-based compensation.

**Adjusted EBITDA.** Adjusted EBITDA includes adjustments to net income to exclude interest, income taxes, depreciation, amortization, share-based compensation, foreign currency exchange loss (gain), change in fair value of interest rate swap liability and severance and other expenses related to litigation. Adjusted EBITDA is not a measure of performance defined in accordance with U.S. GAAP. However, Adjusted EBITDA is used by management to evaluate our operating performance. Management believes that disclosure of the Adjusted EBITDA metric offers investors, regulators and other stakeholders a view of our operations in the same manner management evaluates our performance. When combined with U.S. GAAP results, management believes Adjusted EBITDA provides a comprehensive understanding of our financial results. Adjusted EBITDA should not be considered as an alternative to net income or to net cash provided by operating activities as a measure of operating results or of liquidity. It may not be comparable to similarly titled measures used by other companies, and it excludes financial information that some may consider important in evaluating our performance. A reconciliation of U.S. GAAP net income to Adjusted EBITDA is as follows:

<b>Adjusted EBITDA Reconciliation:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net income (loss)	\$ 874,236	\$ (1,297,499)	\$ 1,513,428	\$ (3,387,475)
Interest expense	129,422	162,082	450,474	506,922
Share redemption consideration	195,482	195,482	586,446	586,446
Interest income	(392)	(1,412)	(1,163)	(25,313)
Depreciation and amortization	722,475	575,637	2,160,217	1,499,927
Share-based compensation	449,564	178,553	1,207,649	512,818
Foreign currency exchange loss (gain)	33,781	(20,014)	31,511	95,976
Change in fair value of interest rate swap liability	—	(55,330)	(66,009)	(21,650)
(Benefit) provision for income taxes	(21,186)	133,708	7,000	(492,807)
Other non-recurring income	(25,000)	(15,320)	(25,000)	(15,320)
Severance expense	8,846	(3,243)	12,596	20,058
Special project expense <sup>(1)</sup>	95,894	183,059	425,540	836,415
<b>Adjusted EBITDA</b>	<b>\$ 2,463,122</b>	<b>\$ 35,703</b>	<b>\$ 6,302,689</b>	<b>\$ 115,997</b>

(1) Includes expenses associated with the Triangulum lawsuit.

**Liquidity and capital resources.** We have generally been able to fund our continuing operations, our investments, and the obligations under our existing borrowings through cash flow from operations. In 2020, as a result of COVID, we were required to raise funds from financing sources in order to maintain operations. In addition to our normal operations, we may make acquisitions of products, technologies or entire businesses. Our ability to access capital for operations or for acquisitions will depend on conditions in the capital markets and investors' perceptions of our business prospects and such conditions and perceptions may not always favor us.

As of September 30, 2021, we had total current assets of \$15,239,020 and total assets of \$32,384,680. This compares to \$11,562,833 and \$30,574,594, respectively, as of December 31, 2020. The increase in total current assets and total assets as of September 30, 2021 was primarily due to an increase in the accounts receivable balance, resulting from higher billings and lower collections directly related to the COVID-19 crisis. The increase in total assets was offset by monthly amortization on the Company's long-term other intangible assets.

Our total current liabilities as of September 30, 2021 increased to \$5,781,504 from \$4,247,794 as of December 31, 2020, primarily due to the Company accruing for 2021 employee bonuses and an increase in accrued royalties in our online gaming business. Also, the Revolving Loan was reclassified from long-term to short-term in April 2021. These increases were offset by a decrease in the notes payable balance, as the final payment on the financed D&O insurance policy was made in September 2021.

Despite the continuing effects of the COVID-19 crisis, our business was profitable and cash-flow positive in Q3 2021. Based on our current forecast of operations, we believe we will have sufficient liquidity to fund our operations and to meet the obligations under our financing arrangements as they come due.

We continue to file applications for new or enhanced licenses in several jurisdictions, which may result in significant future legal and regulatory expenses. A significant increase in such expenses may require us to postpone growth initiatives or investments in personnel, inventory and research and development of our products. It is our intention to continue such initiatives and investments. However, to the extent we are not able to achieve our growth objectives or raise additional capital, we will need to evaluate the reduction of operating expenses.

Our operating activities provided cash of \$3,220,319 for the nine months ended September 30, 2021, compared to cash used of (\$1,261,133) for the comparable prior period. The increase in operating cash flow was primarily due to higher net income for the period as a result of the re-opening of a significant portion of our land-based customers after the restrictions due to the COVID-19 crisis were lifted. Also, higher depreciation and amortization and share-based compensation contributed to the higher operating cash flow. These increases were partially offset by changes in operating assets and liabilities such as Accounts Receivable, Accounts Payable, Accrued Expenses and Revenue Contract Liability.

Investing activities used cash of (\$84,969) for the nine months ended September 30, 2021, compared to cash used of (\$6,305,047) for the comparable prior period. This decrease was primarily due to the acquisition of PGP in August 2020.

Cash used in financing activities during the nine months ended September 30, 2021 was (\$1,654,182). This compares to \$620,728 cash provided by financing activities for the comparable prior period. This was due to a \$1,000,000 draw on our Revolving Loan in March 2020 and \$835,300 from the Paycheck Protection Program Loan in April 2020, both being included in prior year numbers. Also, principal payments in the current year were higher than prior year due to an increase in the financed payments on the Company's D&O insurance policy.

**Critical accounting policies.** Our consolidated financial statements have been prepared in accordance with U.S. GAAP. We consider the following accounting policies to be the most important to understanding and evaluating our financial results:

**Revenue recognition.** We account for our revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. We generate revenue primarily from the licensing of our intellectual property. We recognize revenue under recurring fee license contracts monthly as we satisfy our performance obligation, which consists of granting the customer the right to use our intellectual property. Amounts billed are determined based on flat rates or usage rates stipulated in the customer contract.

**Goodwill and other intangible assets.** Goodwill and other intangible assets are assessed for impairment at least annually or at other times during the year if events or circumstances indicate that it is more likely than not that the fair value of a reporting asset is below the carrying amount. If found to be impaired, the carrying amounts will be reduced, and an impairment loss will be recognized.

**Long-term liabilities.** The Company issued a promissory note in the face amount of \$39,096,401 to Triangulum on May 6, 2019 in connection with the share redemption disclosed in Note 1. The promissory note has not been given accounting effect in the Company's financial statements. The Company has instead recorded a long-term obligation payable to Triangulum, based on the redemption value specified in our Articles of Incorporation. The obligation is classified as long-term. The Company has the ability but is not required to refinance and settle the litigation.

**Off-balance sheet arrangements.** As of September 30, 2021, there were no off-balance sheet arrangements.

**Recently issued accounting pronouncements.** We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide the information required by this Item.

### ITEM 4. CONTROLS AND PROCEDURES

#### *Disclosure controls and procedures*

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed submitted under the Exchange Act is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2021, our disclosure controls and procedures were effective.

No change in our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### *Limitations on the effectiveness of internal controls*

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives, and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We have been named in and have brought lawsuits in the normal course of business. See Note 11 above and to our audited financial statements included in Item 8 “Financial Statements and Supplementary Financial Information” in our 2020 10-K.

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

On February 17, 2021, 80,000 restricted shares of our common stock valued at \$181,600 were issued to Mr. Cravens. These shares were granted in consideration of the individual's service to the Company. These shares vest on November 11, 2021. These securities were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, (the "Securities Act") and rules and regulations promulgated thereunder. There were no restricted shares issued to the Board in consideration of their service on the Board for the three months ended September 30, 2021.

Our reliance upon Section 4(a)(2) of the Securities Act in granting the aforementioned options to purchase shares of our common stock was based in part upon the following factors: (a) each of the issuances of the securities was in connection with an isolated private transaction which did not involve any public offering; (b) there were a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; and (d) the negotiations for the issuance of the securities took place directly between the offeree and us.

## ITEM 6. EXHIBITS

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.1	<a href="#">Amended and Restated Credit Agreement dated March 29, 2021 with Zions Bancorporation, N.A. dba Nevada State Bank</a>	8-K	000-30653	10.1	March 31, 2021	
10.2	<a href="#">Forbearance to Amended and Restated Credit Agreement dated March 29, 2021 with Zions Bancorporation, N.A. dba Nevada State Bank</a>	8-K	000-30653	10.1	May 17, 2021	
10.3	<a href="#">Settlement Agreement with former Chairman and Chief Executive Officer, Robert Saucier and Triangulum Partners LLC dated October 7, 2021</a>	8-K	000-30653	10.1	October 7, 2021	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
101.INS	Inline XBRL Instance Document – the instance does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					

**SIGNATURES**

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

**Galaxy Gaming, Inc.**

Date: November 15, 2021

By: /s/ TODD P. CRAVENS  
Todd P. Cravens  
President and Chief Executive Officer  
(Principal Executive Officer)

**Galaxy Gaming, Inc.**

Date: November 15, 2021

By: /s/ HARRY C. HAGERTY  
Harry C. Hagerty  
Chief Financial Officer  
(Principal Accounting Officer)

## CERTIFICATIONS

I, Todd P. Cravens, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2021 of Galaxy Gaming, Inc. (the “registrant”);
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 15, 2021

/s/ TODD P. CRAVENS

By: Todd P. Cravens

Title: Chief Executive Officer

## CERTIFICATIONS

I, Harry C. Hagerty, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2021 of Galaxy Gaming, Inc. (the “registrant”);
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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 15, 2021

/s/ HARRY C. HAGERTY

By: Harry C. Hagerty

Title: Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
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 Galaxy Gaming, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 filed with the Securities and Exchange Commission (the "Report"), I, Todd P. Cravens, Chief Executive Officer of the Company, and I, Harry C. Hagerty, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

By: /s/ TODD P. CRAVENS  
Name: Todd P. Cravens  
Title: Principal Executive Officer and Director  
Date: November 15, 2021

By: /s/ HARRY C. HAGERTY  
Name: Harry C. Hagerty  
Title: Principal Financial Officer and Director  
Date: November 15, 2021

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.