
**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 March 31, 2017

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.)

6767 Spencer Street, Las Vegas, NV 89119
(Address of principal executive offices)

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

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input 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: 39,365,591 common shares as of May 15, 2017.

GALAXY GAMING, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2017
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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**GALAXY GAMING, INC.
CONDENSED BALANCE SHEETS**

ASSETS	March 31, 2017	December 31, 2016
Current assets:	(unaudited)	
Cash and cash equivalents	\$ 2,920,154	\$ 2,304,761
Restricted cash	115,513	84,577
Accounts receivable, net of allowance for bad debts of \$31,125	1,996,542	2,137,245
Inventory, net	465,990	427,105
Prepaid expense and other	161,082	194,747
Total current assets	5,659,281	5,148,435
Property and equipment, net	327,600	356,253
Products leased and held for lease, net	215,794	212,131
Goodwill and other intangible assets, net	12,559,573	12,846,019
Deferred tax assets, net	367,057	367,057
Other assets, net	23,000	82,050
Total assets	\$ 19,152,305	\$ 19,011,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 394,009	\$ 461,913
Accrued expenses	1,209,057	1,109,428
Income taxes payable	864,405	786,430
Deferred revenue	954,923	1,014,731
Jackpot liabilities	125,002	90,960
Deferred rent, current portion	17,124	14,938
Current portion of long-term debt and capital lease obligations	1,219,022	1,230,285
Total current liabilities	4,783,542	4,708,685
Deferred rent, net	32,877	37,704
Capital lease obligations, net	38,944	46,978
Common stock warrant liability	990,116	923,616
Long-term debt, net	8,433,911	8,669,151
Total liabilities	14,279,390	14,386,134
Commitments and Contingencies (See Note 10)		
Stockholders' equity		
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; 39,365,591 and 39,315,591 shares issued and outstanding, respectively	39,366	39,316
Additional paid-in capital	3,194,260	3,109,473
Accumulated earnings	1,639,289	1,477,022
Total stockholders' equity	4,872,915	4,625,811
Total liabilities and stockholders' equity	\$ 19,152,305	\$ 19,011,945

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

GALAXY GAMING, INC.
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016 (restated)
Revenue:		
Product leases and royalties	\$ 3,473,841	\$ 2,981,820
Product sales and service	1,455	2,279
Total revenue	<u>3,475,296</u>	<u>2,984,099</u>
Costs and expenses:		
Cost of ancillary products and assembled components	20,882	21,640
Selling, general and administrative	2,086,169	1,633,335
Research and development	138,047	79,342
Depreciation and amortization	436,085	415,974
Share-based compensation	49,837	20,471
Total costs and expenses	<u>2,731,020</u>	<u>2,170,762</u>
Income from operations	<u>744,276</u>	<u>813,337</u>
Other income (expense):		
Interest expense	(445,332)	(258,195)
Foreign currency exchange gains	7,797	112,562
Change in estimated fair value of warrant liability	(66,500)	—
Interest income	—	56
Total other expense	<u>(504,035)</u>	<u>(145,577)</u>
Income before provision for income taxes	240,241	667,760
Provision for income taxes	(77,974)	(239,925)
Net income	<u>\$ 162,267</u>	<u>\$ 427,835</u>
Net income per share, basic and diluted	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Weighted-average shares outstanding:		
Basic	<u>39,305,591</u>	<u>39,351,147</u>
Diluted	<u>40,817,678</u>	<u>39,455,591</u>

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

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

	Three Months Ended	
	March 31, 2017	March 31, 2016
Cash flows from operating activities:		(restated)
Net income	\$ 162,267	\$ 427,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	436,085	415,974
Amortization of debt issuance costs and debt discount	73,729	52,158
Change in estimated fair value of warrant liability	66,500	—
Share-based compensation	49,837	20,471
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash	(30,936)	51,044
Decrease in accounts receivable	140,704	78,239
Increase in inventory	(63,017)	(54,958)
Decrease in prepaid expenses and other current assets	33,665	52,651
Decrease in accounts payable	(67,905)	(111,239)
Increase in income tax payable	74,816	222,903
Increase in accrued expenses	99,629	56,054
(Decrease) increase in deferred revenue	(59,808)	96,293
Increase (decrease) in jackpot liabilities	34,042	(22,470)
Decrease in deferred rent	(2,641)	(457)
Net cash provided by operating activities	<u>946,967</u>	<u>1,284,498</u>
Cash flows from investing activities:		
Acquisition of intangible assets	(27,470)	—
Acquisition of property and equipment	(13,997)	(11,314)
Net cash used in investing activities	<u>(41,467)</u>	<u>(11,314)</u>
Cash flows from financing activities:		
Proceeds from stock option exercises	35,000	—
Debt issuance costs	(17,091)	—
Principal payments on capital lease obligations	(7,611)	(17,441)
Principal payments on long-term debt	(303,563)	(746,419)
Net cash used in financing activities	<u>(293,266)</u>	<u>(763,860)</u>
Effect of exchange rate changes on cash	<u>3,159</u>	<u>(1,962)</u>
Net increase in cash and cash equivalents	<u>615,393</u>	<u>507,362</u>
Cash and cash equivalents – beginning of period	<u>2,304,761</u>	<u>570,623</u>
Cash and cash equivalents – end of period	<u>\$ 2,920,154</u>	<u>\$ 1,077,985</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 445,352</u>	<u>\$ 185,718</u>
Inventory transferred to assets held for lease	<u>\$ 24,132</u>	<u>\$ 10,273</u>
Cash paid for income taxes	<u>\$ —</u>	<u>\$ 5,000</u>

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

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

NOTE 1. NATURE OF OPERATIONS AND RESTATEMENT

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

Nature of operations. We are an established global gaming company specializing in the design, development, manufacturing, marketing and acquisition of proprietary casino table games and associated technology, platforms and systems for the casino gaming industry. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices designed to enhance the player experience.

Restatement. The financial statements as of and for the three months ended March 31, 2016 have been restated to correct the following errors noted during the preparation of the financial statements for the year ended December 31, 2016: (i) the amortization of original issue discount related to notes payable to Prime Table Games LLC and Prime Table Games UK (the “PTG Notes”) was not previously deducted from taxable income in our federal tax returns from 2011 through 2015 or to derive the income tax provision for the three months ended March 31, 2016, which resulted in an understatement of deferred tax assets and an overstatement of the income tax provision in those periods; and (ii) foreign currency exchange gains and losses related to the PTG Notes were incorrectly reported as other comprehensive income instead of earnings (*i.e.*, non-operating income). The restatements to reflect the correction of both errors are referred to herein collectively as the “Restatement.”

The table below sets forth the amounts as originally reported for the categories presented in the statement of income that were affected by the Restatement, the effect of the Restatement and the restated amounts for the three months ended March 31, 2016:

	As originally reported	Impact of restatement	As restated
Selling, general and administrative	\$ 1,652,304	\$ (18,969)	\$1,633,335
Provision for income taxes	(156,863)	(83,062)	(239,925)
Foreign currency exchange gains	—	112,562	112,562
Net income	379,367	48,468	427,835

The table below sets forth the amounts as originally reported for the categories presented in the statement of cash flow that were affected by the Restatement, the effect of the Restatement and the restated amounts for the three months ended March 31, 2016:

	As originally reported	Impact of restatement	As restated
Net income	379,367	48,468	427,835
Deferred income tax provision	156,863	(156,863)	—
Decrease in accounts receivable	76,900	1,339	78,239
Decrease in accounts payable	(111,065)	(174)	(111,239)
Increase in income taxes payable	134,792	88,111	222,903
Increase in accrued expenses	56,598	(544)	56,054
Net cash provided by operating activities	1,304,161	(19,663)	1,284,498
Principal payments on notes payable	(766,082)	19,663	(746,419)
Net cash used in financing activities	(783,523)	19,663	(763,860)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying 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 Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein. As permitted by the rules and regulations of the SEC, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations. 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.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly our financial position and the results of its 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 Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on April 14, 2017 (the “2016 10-K”).

Basis of accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP. Revenues are recognized when earned and expenses are recognized when they are incurred. We do not have significant categories of cost as a vast majority of our revenue is recurring with high margins. Expenses such as wages, consulting expenses, legal, regulatory and professional fees and rent are recorded when the expense is incurred.

Significant Accounting Policies. See Note 2 in Item 8. “Financial Statements and Supplementary Data” included in our 2016 10-K.

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.

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

Recently adopted accounting standards

Inventory. In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory*. ASU 2015-11 changes the criteria for measuring inventory within the scope of the ASU. Inventory will now be measured at the lower of cost or net realizable value, while the concept of market value will be eliminated. The ASU defines net realizable value as the estimated selling process in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with earlier adoption permitted. ASU 2015-11 was adopted effective January 1, 2017 using the required prospective adoption approach, which did not have a material effect on our financial condition, results of operations or cash flows.

Stock-based compensation. In March 2016, the FASB issued No. ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. ASU 2016-09 was adopted effective January 1, 2017 using the prospective adoption approach, which did not have a material impact on our financial condition, results of operations or cash flows.

New accounting standards not yet adopted

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09 (Topic 606), *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede virtually all existing revenue guidance, including industry-specific guidance. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year to now be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early adoption of the standard is permitted but not before the original effective date of December 15, 2016. The ASU may be adopted using a full retrospective approach or reporting the cumulative effect as of the date of adoption. We are currently evaluating the impact of adopting this guidance; however, we expect to adopt using the modified retrospective approach.

Leases. In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amended guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is expected to result in a significant portion of our operating leases being recognized on our balance sheets. The guidance requires lessees and lessors to recognize and

measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with earlier adoption permitted. We are currently evaluating the impact of adopting this guidance.

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires amounts generally described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years with early adoption permitted. Upon the adoption of ASU 2016-08, restricted cash will be included within beginning and ending cash and cash equivalents amounts on our consolidated statements of cash flows.

NOTE 3. INVENTORY

Inventory consisted of the following at March 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Raw materials and component parts	\$ 209,051	\$ 171,478
Finished goods	143,346	128,956
Work-in-process	<u>138,593</u>	<u>151,671</u>
Inventory, gross	490,990	452,105
Less: inventory reserve	<u>(25,000)</u>	<u>(25,000)</u>
Inventory, net	<u>\$ 465,990</u>	<u>\$ 427,105</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following at March 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 269,470	\$ 269,471
Automotive vehicles	202,144	202,143
Leasehold improvements	156,843	156,843
Computer equipment	107,462	105,114
Office equipment	<u>49,520</u>	<u>37,871</u>
Property and equipment, gross	785,439	771,442
Less: accumulated depreciation	<u>(457,839)</u>	<u>(415,189)</u>
Property and equipment, net	<u>\$ 327,600</u>	<u>\$ 356,253</u>

For the three months ended March 31, 2017 and 2016, depreciation expense related to property and equipment of \$42,650 and \$32,180, respectively, is included in depreciation and amortization expense.

Accumulated depreciation of leasehold improvements totaled \$89,896 and \$82,183 as of March 31, 2017 and December 31, 2016, respectively.

NOTE 5. PRODUCTS LEASED AND HELD FOR LEASE

Products leased and held for lease consisted of the following at March 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
Enhanced table systems	\$ 397,960	\$ 424,364
Less: accumulated depreciation	<u>(182,166)</u>	<u>(212,233)</u>
Products leased and held for lease, net	<u>\$ 215,794</u>	<u>\$ 212,131</u>

For the three months ended March 31, 2017 and 2016, depreciation expense related to products leased and held for lease of \$20,469 and \$11,483, respectively, is included in depreciation and amortization expense.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and finite-lived intangible assets consisted of the following at March 31, 2017 and December 31, 2016:

	2017	2016
Patents	\$ 1,091,000	\$ 1,091,000
Finite-lived intangible assets:		
Patents	13,615,967	13,615,967
Customer relationships	3,400,000	3,400,000
Trademarks	2,740,000	2,740,000
Non-compete agreements	660,000	660,000
Software	86,520	—
Other intangible assets, gross	20,502,487	20,415,967
Less: accumulated amortization	(9,033,914)	(8,660,948)
Other intangible assets, net	11,468,573	11,755,019
Goodwill and other intangible assets, net	<u>\$ 12,559,573</u>	<u>\$ 12,846,019</u>

NOTE 7. ACCRUED EXPENSES

Accrued expenses, consisted of the following at March 31, 2017 and December 31, 2016:

	2017	2016
TableMAX license fee	\$ 549,312	\$ 470,512
Payroll and related	307,690	405,553
Professional fees	185,015	59,567
Commissions and royalties	108,171	54,551
Accrued interest	2,622	2,602
Other	56,247	116,643
Total accrued expenses	<u>\$ 1,209,057</u>	<u>\$ 1,109,428</u>

TableMAX license fee. Under the terms of a five-year licensing agreement (the “TMAX Agreement”) with TableMAX Corporation (“TMAX”) a provider of electronic table games and platforms headquartered in Las Vegas, Nevada, we previously had exclusive worldwide rights (excluding one international territory and two U.S. states) to the TMAX electronic gaming platform and certain related game titles. Pursuant to the terms of the TMAX Agreement, the licensee fee payable to TMAX is dependent upon our generating profitable operating results specifically from the use of TMAX products. To the extent there are net profits (as defined in the TMAX Agreement), a percentage of such net profits is payable to TMAX depending on the number of TMAX product installations. The TMAX Agreement expired during 2016, and we are currently negotiating the licensing fee (if any) that is payable to TMAX.

NOTE 8. CAPITAL LEASE OBLIGATIONS

Capital lease obligations consisted of the following at March 31, 2017 and December 31, 2016:

	2017	2016
Capital lease obligation – leasehold improvements	\$ 70,396	\$ 78,008
Less: Current portion	(31,452)	(31,030)
Total capital lease obligations - long-term	<u>\$ 38,944</u>	<u>\$ 46,978</u>

Future annual payments for capital leases obligations are as follows for the years ending March 31:

	March 31,	Total
2018	\$	31,452
2019		33,226
2020		5,718
Total minimum lease payments	<u>\$</u>	<u>70,396</u>

NOTE 9. LONG-TERM DEBT

Long-term debt consisted of the following at March 31, 2017 and December 31, 2016:

	2017	2016
Term loan	\$ 10,237,500	\$ 10,500,000
Notes payable, related party	490,838	509,135
Equipment notes payable	152,955	162,274
Insurance notes payable	22,616	36,063
Notes payable -gross	10,903,909	11,207,472
Less:		
Unamortized debt issuance costs	(578,660)	(595,462)
Warrants issued	(703,768)	(743,604)
Notes payable - net	9,621,481	9,868,406
Less: Current portion	(1,187,570)	(1,199,255)
Long-term debt, net	\$ 8,433,911	\$ 8,669,151

Term loan. In August 2016, we entered into a term loan agreement (the "Term Loan Agreement") for an aggregate principal amount of \$10,500,000 (the "Term Loan"). Proceeds of the Term Loan were primarily used to prepay in full the outstanding notes payable to unrelated parties. The remainder of the proceeds from the Term Loan was used for general corporate purposes and working capital needs. The Term Loan is secured by a senior lien on substantially all of our assets. In conjunction with the Term Loan, we also entered into a warrant agreement (the "Warrant Agreement"), pursuant to which we issued the lenders a six-year warrant to purchase 1,965,780 shares of our common stock (the "Warrants") (Note 13).

Under the Term Loan, we are subject to quarterly financial covenants that, among other things, limit our annual capital expenditures (as defined in the Term Loan Agreement), and require us to maintain a specified leverage ratio and minimum EBITDA amounts, each of which are defined in the Term Loan agreement. We were in compliance with the financial covenants of the Term Loan Agreement as of March 31, 2017.

During the initial twelve-month period of the Term Loan, the outstanding principal will accrue interest at the rate of 14.0% per annum. Thereafter, the outstanding principal will accrue interest at the lesser of 14.0% per annum or 12.5% per annum for any quarterly period in which we achieve a specified leverage ratio.

The Term Loan required quarterly interest-only payments through December 31, 2016, after which we are required to make quarterly principal payments of \$262,500 plus accrued interest. The remaining principal and any unpaid interest will be payable in full on August 29, 2021. Voluntary prepayments of the Term Loan, in full or in part, are permitted after the first anniversary of the Term Loan, subject to certain premiums. The Term Loan also requires certain mandatory prepayments in the amount of 100% of the proceeds from certain asset dispositions (other than in the ordinary course of business) and certain other extraordinary events, and 25% of the proceeds from the sale and issuance of capital stock. Substantially all of our assets are pledged as collateral for the Term Loan.

The foregoing summary of the Term Loan Agreement and the Warrant Agreement is qualified in its entirety by reference to the respective agreements, which are found as Exhibits 99.1 and 99.2, respectively, to our Form 8-K filed with the SEC on August 29, 2016.

Notes payable, related party. In connection with an asset purchase agreement executed in December 2007, we executed a note payable due to an entity owned and controlled by our Chief Executive Officer ("CEO"). This note requires annual principal and interest payments of \$109,908, at a fixed interest rate of 7.3% through December 2018, at which time there is a balloon payment due of \$354,480.

As of March 31, 2017, maturities of our long-term debt obligations are as follows:

Maturities as of March 31,	Total
2018	\$ 1,187,570
2019	1,503,811
2020	1,086,007
2021	1,072,138
2022	6,054,383
Total notes payable	10,903,909
Less:	
Unamortized debt issuance costs	(578,660)
Warrants issued	(703,768)
Notes payable, net	<u>\$ 9,621,481</u>

NOTE 10. COMMITMENTS AND CONTINGENCIES

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. For the three months ended March 31, 2017 and 2016, respectively, we had the following client revenue concentration:

	Location	2017 Revenue	2016 Revenue
Client A	North America	14.6%	14.2%

We are also exposed to risks associated with the expiration of our patents. In 2015, domestic and international patents for two of our products expired, which accounted for approximately \$1,421,231 or 41% of our revenue for the three months ended March 31, 2017. However, we assumed an agreement between the previous owner of these patents and a competitor of ours that prohibits any similar product offerings based on these expired patents until March 2023. As a result, we do not expect the expiration of these patents to have a significant adverse impact on our financial statements.

Operating lease. In February 2014, we entered into a lease (the “Spencer Lease”) for a new corporate office with an unrelated third party. The five-year Spencer Lease is for a building approximately 24,000 square feet, which is comprised of approximately 16,000 square feet of office space and 8,000 square feet of warehouse space. The property is located in Las Vegas, Nevada.

The initial term of the Spencer Lease commenced on April 1, 2014. We were obligated to pay approximately \$153,000 in annual base rent in the first year, and the annual base rent is scheduled to increase by approximately 4% each year. We are also obligated to pay real estate taxes and other building operating costs. Subject to certain conditions, we have certain rights under the Spencer Lease, including rights of first offer to purchase the premises if the landlord elects to sell. We also have an option to extend the term of the Spencer Lease for two consecutive terms of three years each, at the then current fair market value rental rate determined in accordance with the terms of the Spencer Lease.

In connection with the commencement of the Spencer Lease, the landlord agreed to finance tenant improvements (“TI Allowance”) of \$150,000. The base rent is increased by an amount sufficient to fully amortize the TI Allowance through the initial Spencer Lease term upon equal monthly payments of principal and interest, with interest imputed on the outstanding principal balance at the rate of 5.5% per annum. The TI Allowance has been classified as a capital lease on the balance sheet.

Total rent expense was \$70,570 and \$72,154 for the three months ended March 31, 2017 and 2016, respectively.

There are currently no operating lease commitments that extend beyond April 1, 2020. As of March 31, 2017, the amounts shown in the accompanying table reflect our estimates of annual future minimum lease obligations:

	Twelve Months Ending March 31,	Annual Obligation
2018		\$ 228,000
2019		236,736
2020		59,730
Total obligations		<u>\$ 524,466</u>

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. In accordance with ASC Topic 450, we record accruals for such contingencies to the extent we conclude that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. Our assessment of each matter may change based on future unexpected events. 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. We assume no obligation to update the status of pending litigation, except as may be required by applicable law, statute or regulation. For a complete description of the facts and circumstances surrounding material litigation to which we are a party, see Note 12 in Item 8. “Financial Statements and Supplementary Data” included in our 2016 10-K.

NOTE 11. STOCKHOLDERS’ EQUITY

In February 2017, a former employee forfeited 100,000 shares of unvested restricted stock and paid us \$35,000 in connection with the exercise of 150,000 fully-vested stock options.

NOTE 12. INCOME TAXES

Our forecasted annual effective tax rate at March 31, 2017 was 35.0%, as compared to 35.4% at March 31, 2016. For the three months ended March 31, 2017 and 2016, our effective tax rate was 31.4% and 35.5%, respectively. The decrease in the effective tax rate is primarily due to excess stock compensation benefits in income tax expense for the three months ended March 31, 2017 resulting from the adoption of ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*.

NOTE 13. STOCK WARRANTS, OPTIONS AND GRANTS

Stock options. For each of the three months ended March 31, 2017 and 2016, we issued 112,500 stock options to members of our Board of Directors and independent contractors.

The fair value of all stock options granted for the three months ended March 31, 2017 and 2016 was determined to be \$47,635 and \$16,348, respectively, using the Black-Scholes option pricing model with the following assumptions:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Dividend yield	0%	0%
Expected volatility	85%	89%
Risk free interest rate	1.93%	1.21%
Expected life (years)	5.00	5.00

A summary of stock option activity is as follows:

	Common stock options	Weighted-average exercise price	Aggregate intrinsic value	Weighted-average remaining contractual term (years)
Outstanding – December 31, 2016	1,496,250	\$ 0.32	\$ 385,017	3.57
Issued	112,500	0.63	—	—
Exercised	(150,000)	0.23	—	—
Expired	—	—	—	—
Outstanding – March 31, 2017	1,458,750	\$ 0.36	\$ 400,329	3.65
Exercisable – March 31, 2017	1,338,193	\$ 0.36	\$ 365,368	3.64

A summary of unvested stock option activity is as follows:

	Common stock options	Weighted-average exercise price	Aggregate intrinsic value	Weighted-average remaining contractual term (years)
Unvested – December 31, 2016	128,889	\$ 0.34	\$ 30,933	3.99
Granted	112,500	0.63	—	—
Vested	(120,832)	0.61	—	—
Forfeited or expired	—	—	—	—
Unvested – March 31, 2017	120,557	0.34	\$ 28,934	3.81

Warrants. On August 29, 2016, in connection with the Term Loan Agreement, we issued the lenders the Warrants to purchase 1,965,780 shares of common stock at an initial exercise price of \$0.30 per share. The number of shares of common stock issuable upon exercise of the Warrants, and/or the exercise price of such shares, is subject to standard anti-dilution adjustments in the event of stock splits, reorganizations, stock dividends, and similar events. As of the date of the Warrant Agreement, the shares of common stock issuable upon a full exercise of the Warrants would represent 5.0% of the total issued and outstanding shares of our common stock. The lenders were also granted the right, but not the obligation, to purchase up to 5.0% of the total number of new securities that we may, from time to time, sell and issue.

The Warrants expire on August 29, 2022, and may not be exercised prior to the earliest of (a) the fifth anniversary of the Term Loan Agreement, (b) the date on which the obligations described in the Term Loan Agreement are repaid in full, or (c) the date on which the Lender declares all or any portion of the outstanding amount of the Term Loan to be due and payable under the terms of the Term Loan Agreement (collectively, the "Trigger Date"). Exercise of the Warrants requires a sixty (60) day prior written notice, during which time we may exercise our Call Right described below.

The Warrant Agreement includes a call right (the "Call Right") whereby we can purchase the Warrants for a fixed sum of \$1,333,333 upon providing the Warrant holders with a thirty (30) day prior written notice. Furthermore, the Warrant Agreement also includes a put right (the "Put Right") whereby the Lenders may require us to purchase from the Lenders all or any portion of the Warrants at a purchase price equal to the lesser of (a) the fair market value of the underlying shares of common stock as of the date of exercise of the Put Right, or (b) \$1,333,333. The Put Right may not be exercised prior to the Trigger Date (as defined above), and the Put Right expires on August 29, 2022. The foregoing summary of the Term Loan Agreement and the Warrant Agreement is qualified in its entirety by reference to the respective agreements, which are found as Exhibits 99.1 and 99.2, respectively, to our Form 8-K filed with the SEC on August 29, 2016.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

We estimate fair value for financial assets and liabilities in accordance with 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 value of cash equivalents, restricted cash, accounts receivable and accounts payable approximates the carrying amount of these financial instruments due to their short-term nature. The estimated fair value of our long-term debt and capital lease obligations approximates their carrying value based upon our expected borrowing rate for debt with similar remaining maturities and comparable risk. As of March 31, 2017, the Warrants were the only financial instrument measured at estimated fair value on a recurring basis.

NOTE 15. SUBSEQUENT EVENT

On May 1, 2017, we entered into an employment agreement (the "Employment Agreement") with Harry C. Hagerty, pursuant to which Mr. Hagerty will serve as our Chief Financial Officer. The term of the Employment Agreement is through April 30, 2020. Pursuant to the Employment Agreement, Mr. Hagerty shall receive a base salary of \$120,000 per annum and be eligible for bonuses if and as approved by the Compensation Committee of our Board of Directors. In addition, Mr. Hagerty will be granted stock options to purchase 400,000 shares of our Common Stock at an exercise price per share of \$0.60, subject to vesting and other conditions.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that do not relate to historical or current facts, but are "forward looking" statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements may also relate to future events or trends, our future prospects and proposed new products, services, developments, or business strategies, among other things. These statements can generally (although not always) be identified by their use of terms and phrases such as anticipate, appear, believe, could, would, estimate, expect, indicate, intent, may, plan, predict, project, pursue, will, continue and other similar terms and phrases, as well as the use of the future tense.

Actual results could differ materially from those expressed or implied in our forward looking statements. Our future financial condition and results of operations, as well as any forward looking statements, are subject to change and to inherent known and unknown risks and uncertainties. You should not assume at any point in the future that the forward looking statements in this report are still valid. We do not intend, and undertake no obligation, to update our forward looking statements to reflect future events or circumstances.

OVERVIEW

We develop, acquire, manufacture and market technology and entertainment-based products and services for the gaming industry for placement on the casino floor. 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. Our products and services are offered in highly regulated markets throughout the world. Our products and services are manufactured at our headquarters and manufacturing facility in Las Vegas, Nevada, as well as outsourced for certain sub-assemblies in the United States.

Additional information regarding our products and product categories may be found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 10-K and on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

As discussed in Note 1 to our financial statements included in Item 1 of this report, financial statements for the three months ended March 31, 2016 have been restated to correct certain errors noted during the preparation of the financial statements for the year ended December 31, 2016. The restatements to reflect the correction of these errors are referred to herein collectively as the "Restatement." For further information regarding the Restatement, see our Current Report on Form 8-K filed with the SEC on April 3, 2017.

Results of operations for the three months ended March 31, 2017. For the three months ended March 31, 2017, our continuing operations generated gross revenues of \$3,475,296 compared to gross revenues of \$2,984,099 for the comparable prior-year period, representing an increase of \$491,197, or 16%. This increase was primarily attributable to our focus on Premium Games such as *High Card Flush*, which command a higher price point per unit, and the improved performance of side bet games such as *21+3* and *Bonus Craps*. Selling, general and administrative expenses for the three months ended March 31, 2017, were \$2,086,169 compared to \$1,633,335 for the three months ended March 31, 2016, representing an increase of \$452,834, or 28%. Significant year-over-year changes in selling, general and administrative expenses consisted of the following categories:

	Three months ended March 31,	
	2017	2016
Compensation	\$ 680,970	\$ 415,729
Legal fees	\$ 39,143	\$ 196,302

Employee compensation expenses increased as a result of our investments in personnel as we grow as well as higher sales commissions due to higher revenues in 2017. Legal and professional fees have decreased due to the completion of legal proceedings in 2016.

Research and development expenses for the three months ended March 31, 2017 were \$138,047, compared to \$79,342 for the comparable prior-year period, representing an increase of \$58,705, or 74%. This increase is primarily due to increased costs associated with testing our products.

Income from operations decreased \$69,061, or 8%, to \$744,276 for the three months ended March 31, 2017, compared to \$813,337 for the comparable prior-year period. This decrease was primarily attributable to higher selling, general and administrative expenses.

Total interest expense increased \$187,137, or 72%, to \$445,332 for the three months ended March 31, 2017, compared to \$258,195 for the comparable prior-year period. The increase in interest expense is primarily due to the Term Loan refinance transaction completed in August 2016.

The change in estimated fair value of warrants issued in connection with the Term Loan was \$66,500 for the three months ended March 31, 2017, compared to zero for the comparable prior-year period. The estimated fair value is determined using the Black-Scholes pricing model.

Income tax provision decreased \$161,951 or 68%, to \$77,974 for the three months ended March 31, 2017, compared to \$239,925 for the comparable prior-year period. This is attributable to the decrease in income before provision for income taxes.

Adjusted EBITDA. Adjusted EBITDA includes adjustment to net income to exclude interest, taxes, depreciation, amortization, share based compensation, loss on extinguishment of debt, foreign currency exchange gains, change in estimated fair value of warrant liability, and settlement income. Adjusted EBITDA is not a measure of performance defined in accordance with U.S. generally accepted accounting principles ("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 from operations to Adjusted EBITDA is as follows:

Adjusted EBITDA Reconciliation:	Three months ended March 31,	
	2017	2016 (restated)
Net income	\$ 162,267	\$ 427,835
Interest income	—	(56)
Interest expense	445,332	258,195
Income tax provision	77,974	239,925
Depreciation and amortization	436,085	415,974
Share based compensation expense	49,837	20,471
Foreign currency exchange gains	(7,797)	(112,562)
Change in estimated fair value of warrant liability	66,500	—
Adjusted EBITDA	<u>\$ 1,230,198</u>	<u>\$ 1,249,782</u>

Liquidity and capital resources. As of March 31, 2017 we had total current assets of \$5,659,281 and total assets of \$19,152,305. This compares to \$5,148,435 and \$19,011,945, respectively as of December 31, 2016. The increase in current assets as of March 31, 2017 was primarily impacted by an increase in cash and cash equivalents, partially offset by a decrease in accounts receivable. Cash increased significantly due to reduced principal payments on the Term Loan as compared to the PTG Notes. Our total current liabilities as of March 31, 2017 were \$4,783,542 versus \$4,708,685 as of December 31, 2016. This increase was primarily driven by the increase in accrued expenses (including costs related to the Restatement) and increase in income tax payable. Our business model continues to be highly profitable and we have several options to ensure we are able to meet our short-term and long-term obligations.

We have undertaken certain growth initiatives to expand our recurring revenue base. As such we have made investments in personnel and research related to the development of our enhanced table systems. Additionally, we increased our sales and marketing budget and spent monies on regulatory efforts for the purpose of expanding our distribution network. We are also subject to several regulatory investigations and proceedings 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.

At March 31, 2017, we do not have any available third-party lines or letters of credit or any written or oral commitments from officers or shareholders to provide us with loans or advances to support our operations or fund potential acquisitions.

Our operating activities provided \$946,967 in cash for the three months ended March 31, 2017, compared to \$1,284,498 for the three months ended March 31, 2016. The decrease in operating cash flow was primarily due to the decreases in net income, income taxes payable and deferred revenue, partially offset by increases in accrued expenses.

Additionally, investing activities used cash of \$41,467 for the three months ended March 31, 2017. The cash flows from investing activities are due to the acquisition of software and property and equipment. Cash used in financing activities during the three months ended March 31, 2017 was \$293,266, which was primarily due to principal payments towards long-term debt and capital leases.

We intend to fund our continuing operations through increased sales and cash flow. However, the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements. There can be no assurance that we will be successful in raising additional funding, if necessary, and even if we are successful, it may not be on advantageous terms to us. If we are not able to secure additional funding, the implementation of our business plan could be impaired. In addition, we may incur higher capital expenditures in the future to expand our operations. We may from time to time acquire products and businesses complementary to our business. We may also incur significant expenses when applying for new licenses or in complying with current jurisdictional requirements. As a public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

Critical accounting policies. The discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. GAAP. Critical accounting policies are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations. See Note 2 of our financial statements included in Item 8. "Financial Statements and Supplementary Data" of our 2016 10-K for further detail on these critical accounting policies.

Off balance sheet arrangements. As of March 31, 2017, 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

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 March 31, 2017 our disclosure controls and procedures were effective.

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 SEC'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 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.

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

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, that are complex in nature and have outcomes that are difficult to predict. In accordance with topic ASC Topic 450, we record accruals for such contingencies to the extent that we conclude that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. Our assessment of each matter may change based on future unexpected events. 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. We assume no obligation to update the status of pending litigation, except as may be required by applicable law, statute or regulation. For a complete description of the facts and circumstances surrounding material litigation to which we are a party, see Note 12 in Item 8. “Financial Statements and Supplementary Data” included in our See Note 2 in Item 8. “Financial Statements and Supplementary Data” included in our 2016 10-K. There are no material updates to matters previously reported on our 2016 10-K.

ITEM 5. OTHER INFORMATION

On May 1, 2017, in connection with his employment agreement, we granted Harry Hagerty an option to purchase up to 400,000 shares of our common stock, with an exercise price of \$0.60 per share, which option vests as follows: (i) immediately as to the first 100,000 shares of stock, (ii) as to the next 300,000 shares of stock, 100,000 shares on each of the first, second and third anniversary of the effective date of Mr. Hagerty’s employment agreement. The option must be exercised within five years from the date of grant or 90 days from the date of Mr. Hagerty’s separation from us. The option was issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, (the “Securities Act”) and rules and regulations promulgated thereunder. Our reliance upon Section 4(a)(2) of the Securities Act was based in part upon the following factors: (a) the issuance of the securities was in connection with an isolated private transaction which did not involve any public offering; (b) there was only a single offeree; (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

<u>Number</u>	<u>Description of Exhibit</u>
10.1	Employment agreement with Harry C. Hagerty, Chief Financial Officer, dated May 1, 2017
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	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*
101	Financials in XBRL format

* In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed “filed” for the purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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: May 15, 2017

By: /s/ ROBERT B. SAUCIER
Robert B. Saucier
Chief Executive Officer (Principal Executive
Officer)

Galaxy Gaming, Inc.

Date: May 15, 2017

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

EMPLOYMENT AGREEMENT

HARRY HAGERTY

THIS EMPLOYMENT AGREEMENT (this “*Agreement*”) by and between GALAXY GAMING, INC., a Nevada corporation (“*Employer*”), and HARRY HAGERTY (“*Employee*” and, together with Employer, the “*Parties*”) is entered into on May 1, 2017, and made effective for all purposes as of May 1, 2017 (the “*Effective Date*”).

WHEREAS, Employer operates in the highly-competitive business of designing, developing, manufacturing, marketing and acquiring proprietary casino table games and associated technology, platforms and systems (the “*Business*”) for the casino gaming industry in the United States, Canada and other countries (the “*Industry*”) and provides such services (the “*Services*”) to casinos and other gaming venues; and

WHEREAS, Employer desires to employ Employee and Employee desires to be employed by Employer, in such capacity, and under the terms and restrictions as set forth herein; and

WHEREAS, as a result of such employment, Employee has and will have access to Confidential Information and Trade Secrets (as defined herein). Employee will gain the ability to influence the goodwill of Employer with Partners (as defined herein) necessary to the success of the Business. Employee recognizes that the Confidential Information and Trade Secrets and Partner relationships and goodwill are assets deserving of protection as provided for in the restrictive covenants contained in this Agreement.

NOW THEREFORE, for and in consideration of Employee’s employment with Employer on the terms and conditions set forth herein, and the promises, mutual covenants, and agreements hereinafter contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Employer and Employee, intending to be legally bound, hereby agree and covenant as follows:

1. Employment; Duties.

(a) **Term.** Subject to the terms and conditions of this Agreement, Employer agrees to employ Employee, and Employee agrees to be employed by Employer as of the Effective Date pursuant to the terms herein until April 30, 2020.

(b) **Release of Claims.** This Agreement supersedes in its entirety any employment agreement, oral or in writing, or comparable arrangements between Employer and Employee in effect prior to the Effective Date. Employee hereby relinquishes and unconditionally forfeits any claim or entitlement to any severance pay or other post-termination benefits from Employer pursuant to any agreement in effect prior to the Effective Date, and hereby discharges and releases any claims against Employer relating to anything done or omitted to be done with respect to Employee’s employment up to the date of this Agreement.

(c) **Position; Duties.** During the period of Employee’s employment hereunder, Employee agrees to serve Employer, and Employer shall employ Employee, in the position listed on Exhibit A, or in such other capacity or capacities as may be determined from time to time by Employer. During the period of Employee’s employment with Employer, Employee shall in good faith devote Employee’s time, attention, skills and efforts to the business and affairs of Employer. Employee’s duties shall be performed under the direction and supervision of Employer’s Chief Executive Officer (“*CEO*”) and may change in order to meet the Company’s existing needs at the direction of the CEO. The foregoing shall not be

construed as prohibiting Employee from serving on corporate, civic or charitable boards or committees or making personal investments, so long as such activities are approved in advance by the CEO (such approval to not be unreasonably withheld) and do not materially interfere with the performance of Employee's obligations to Employer as set forth in this Agreement or as may be determined by Employer from time to time. Employer and Employee agree that Employee may continue to serve as an officer and board member at Sightline Payments LLC provided that 1) such activity does not consume more than 6 hours per week and 2) such activity terminates on or before December 31, 2017.

(d) **Compensation; Benefits.** For all services rendered by Employee under this Agreement, Employee shall be compensated as set forth in Exhibit A. Employer may withhold from any amounts payable under this Agreement such federal, state and local taxes required to be withheld pursuant to any applicable law or regulation.

(e) **Survival of Employee's Obligations After Termination.** Upon the effective date of the termination of Employee's employment with Employer under this Agreement, regardless the date, cause or manner of such termination (the "**Termination Date**"), Employee's obligations set forth in Sections 3, 4 and 5, below, shall survive and remain in full force and effect to the extent provided in those Sections.

2. Termination of Employment.

(a) **Termination by Employer for Cause.** Employer may terminate Employee's employment under this Agreement for "Cause" (as hereinafter defined) or otherwise at will at any time immediately upon written notice, or where applicable, upon Employee's failure to cure the breach as provided below, whereupon Employer shall have no further obligation hereunder to Employee, except for payment of amounts of Base Salary accrued through the Termination Date. For purposes of this agreement, "**Cause**" shall mean: (i) the continued willful failure by Employee to substantially perform his duties with Employer, (ii) the willful engaging by Employee in gross misconduct materially and demonstrably injurious to Employer, (iii) the good faith and commercially reasonable determination by the CEO that Employee's continued employment by Employer is likely to have a materially adverse effect on the licensing or regulatory status of Employer with any gaming or other regulatory agency, or (iv) Employee's material breach of Section 1, 3, 4 or 5 of this Agreement; provided, that with respect to any breach that is curable by Employee, as determined by Employer in good faith, Employer has provided Employee written notice of the material breach and Employee has not cured such breach, as determined by Employer in good faith, within fifteen (15) business days following the date Employer provides such notice.

(b) **Termination as a Result of Employee's Death or Disability.** Employee's employment hereunder shall terminate automatically upon Employee's death and may be terminated by Employer upon Employee's Disability (as hereinafter defined). If Employee's employment hereunder is terminated by reason of Employee's Disability or death, Employee's (or Employee's estate's) right to benefits under this Agreement will terminate as of the date of such termination and all of Employer's obligations hereunder shall immediately cease and terminate, except that Employee or Employee's estate, as the case may be, will be entitled to receive accrued Base Salary and benefits through the Termination Date. As used herein, "**Disability**" shall have the meaning set forth in any long-term disability plan in which Employee participates, and in the absence thereof shall mean the determination in good faith by Employer's board of directors (the "**Board**") (or comparable governing body) that, due to physical or mental illness, Employee shall have failed to perform his duties on a full-time basis hereunder for one hundred eighty (180) consecutive days and shall not have returned to the performance of his duties hereunder on a full-time basis before the end of such period, and if Disability has occurred termination shall occur within thirty (30) days after written notice of termination is given (which notice may be given before the end of the one hundred eighty (180) day period described above so as to cause termination of employment to occur as early as the last day of such period).

(c) Termination by Employee for Good Reason or by Employer other than as a Result of Employee's Death or Disability or other than for Cause; Change of Control.

(i) Employee may terminate Employee's employment hereunder for "Good Reason" (as hereinafter defined), if Good Reason exists, upon at least thirty (30) days' prior written notice to Employer, and Employer may terminate Employee's employment hereunder for any reason or for no reason, other than as a result of Employee's death or Disability or for Cause, upon at least thirty (30) days' prior written notice to Employee, in each case with the consequences set forth in this Section 2(c).

(ii) If Employee's employment is terminated by Employee for Good Reason or by Employer for any reason other than Employee's death or Disability or other than for Cause, subject to Employee entering into and not revoking a release of claims in favor of Employer and its affiliates pursuant to Section 2(e) below and Employee fully complying with the covenants set forth in Sections 3, 4 and 5, Employee shall be entitled to the following benefits:

(A) Cash severance payments equal in the aggregate to twelve (12) months of Employee's annual Base Salary at the time of termination, payable in accordance with Employer's customary payroll practices as in effect from time to time.

(B) Continuation of Employee's medical and health insurance benefits for a period equal to the lesser of (i) twelve (12) months or (ii) the period ending on the date Employee first becomes entitled to medical and health insurance benefits under any plan maintained by any person for whom Employee provides services as an employee or otherwise.

(C) In addition, solely if Employee is terminated without Cause following a "Change of Control" (as defined below), Employee shall be entitled to (i) cash severance payments equal in the aggregate to twelve (12) months of Employee's annual Base Salary at the time of termination, payable in accordance with Employer's customary payroll practices as in effect from time to time, and (ii) any unvested stock options or restricted stock granted to Employee pursuant to this Agreement or otherwise shall accelerate and immediately vest.

(iii) For purposes of this Agreement, "**Good Reason**" shall mean: (A) a material reduction (without Employee's express written consent) in Employee's Base Salary, unless the reduction is made as part of, and is generally consistent with, a general reduction of executive salaries; (B) a material reduction (without Employee's express written consent) in Employee's Responsibilities as listed in Exhibit A; or (C) Employer's material breach (without Employee's express written consent) of Section 1 of this Agreement; provided, that Employee has provided Employer written notice of the material breach and Employer has not cured such breach within thirty (30) days following the date Employee provides such notice. If Employer thereafter intentionally repeats the breach it previously cured, such breach shall no longer be deemed curable.

(iv) For purposes of this Agreement, "**Change of Control**" shall mean (A) the sale, conveyance or other disposition of all or substantially all of Employer's assets as an entirety or substantially as an entirety to any "person" (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), entity or "group" of persons (as defined in Section 13(d) of the Exchange Act) acting in concert; (B) any "person" becoming the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Employer representing 50% or more of the total voting power represented by Employer's then-outstanding voting securities; or (C) a merger or consolidation of Employer with any other corporation or other entity, other than a merger or consolidation that would result in the voting securities of Employer outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving

entity or its controlling entity) at least 50% of the total voting power represented by the voting securities of Employer, or such surviving entity (or its controlling entity), outstanding immediately after such merger or consolidation, as applicable. Employer and Employee acknowledge and agree that pursuant to subsection (B) of this section 2(c)(iv) above, a conveyance by a party owning 50% or more of the total voting power represented by Employer's then-outstanding voting securities (the "**Majority Owner**") to one or more entities controlled by or under common control with such Majority Owner, or conveyances between any such entities controlled by or under common control with such Majority Owner, shall not be deemed to be a Change of Control unless or until the Majority Owner ceases to own, directly or indirectly, 50% or more of the total voting power represented by Employer's then-outstanding voting securities.

(d) Termination by Employee other than for Good Reason. Employee may terminate his employment with Employer other than for Good Reason upon sixty (60) days' written notice to Employer, after which Employer shall have no further obligation hereunder to Employee, except for payment of amounts of Base Salary and other benefits accrued through the Termination Date. If Employee so notifies Employer of such termination, Employer shall have the right to accelerate the effective date of such termination to any date after Employer's receipt of such notice, but such acceleration will not be deemed to constitute a termination of Employee's employment by Employer without Cause, and the consequences of such termination will continue to be governed by this subsection (d).

(e) Waiver and Release. In consideration for and as a condition to the payments and benefits provided and to be provided under Section 2(c)(ii) of this Agreement, Employee agrees that Employee will, within thirty (30) days after the Termination Date, deliver to Employer a fully executed release agreement substantially in a form then used by and agreeable to Employer and which shall fully and irrevocably release and discharge Employer and its directors, officers, managers, members, shareholders and employees from any and all claims, charges, complaints, liabilities of any kind, known or unknown, owed to Employee, other than any rights Employee may have under the terms of this Agreement that survive such termination of employment and other than any vested rights of Employee under any of Employer's employee benefit plans or programs that, by their terms, survive or are unaffected by such termination of employment.

3. Protection of Confidential Information.

(a) Employee expressly recognizes and acknowledges that in connection with Employee's employment with Employer, Employee will be given access to certain highly-sensitive confidential and proprietary information belonging to Employer or other parties who may have furnished such information under obligations of confidentiality, relating to and used in the Business or the provision of Services (collectively, "**Confidential Information**"). Employee expressly recognizes and acknowledges that, unless otherwise generally available to the public, Confidential Information shall include, but not be limited to, the following categories of information and material, regardless of how such information or material may exist from time to time and whether in electronic, print, or other form, including all copies, notes, or other reproductions or replicas thereof, which constitute valuable, special, and unique assets of Employer or its affiliates that have been developed or acquired through substantial investments of time, money, and resources, and regardless of whether such information is marked as "confidential":

(i) any and all information relating to the operation of the Business or the provision of Services, methods of operation, technology, or marketing, including, but not limited to, business plans, processes, strategic plans, forecasts, financial information or data, marketing information or data, research and development, business account lists, customer lists (including customer names and contact information), customer information (including customer preferences, pricing, buying habits and needs and the methods of fulfilling those needs), employee lists (including skills, ability and compensation of employees other than Employee), vendor or

supplier lists, licensor or licensee lists, contractor lists, records relating to any intellectual property owned by, controlled, or maintained by Employer related to the operation of the Business or provision of Services, and any and all other records pertaining to the operation of the Business or provision of Services which Employer may, from time to time, designate as confidential or proprietary or that Employee reasonably knows should be treated or has been treated by Employer or its affiliates as confidential or proprietary and is related to the operation of the Business or provision of Services;

(ii) any and all information of a technical or proprietary nature developed by or acquired by Employer or made available to Employer and its employees, or any licensor, licensee, customer, utility, supplier, vendor, employee, contractor, sub-contractor, government agency, or municipality affiliated with Employer, on a confidential basis or protected basis and related to the Businesses or provision of Services, including but not limited to any scientific or technical analyses, ideas, concepts, designs, specifications, requirements, prototypes, techniques, technical data or know-how, formulae, methods, discoveries, improvements, equipment, research and development, and inventions related to the Business or provision of Services; and

(iii) excludes information (A) which is in the public domain through no unauthorized act or omission of Employee or (B) which becomes available to Employee on a non-confidential basis from a source other than Employer or its affiliates without breach of such source's confidentiality or non-disclosure obligations to Employer or any of its affiliates.

(b) Employee agrees that Employee shall not disclose any Confidential Information to any third-party not employed by or otherwise expressly associated or affiliated with Employer for any reason or purpose whatsoever and will not use such Confidential Information except on behalf of Employer at any time during Employee's employment with Employer, or at any time within two years after the Termination Date. Employee further agrees to promptly surrender to Employer upon request during Employee's employment with Employer and immediately upon the Termination Date, all Confidential Information and any other property of any kind, existing in any tangible, print or electronic form in Employee's possession or under Employee's control, including all passwords used by Employee to access facilities, networks, or phone systems of Employer. Employee also expressly agrees that immediately upon the Termination Date, Employee shall cease using any secure website or web portals, e-mail system, or phone system or voicemail service of Employer.

(c) In addition, during Employee's employment with Employer and at all times after the Termination Date, Employee shall not directly or indirectly disclose any Trade Secret (defined below) to any third-party, and shall not use any Trade Secret, directly or indirectly, for Employee or for others, without the prior written consent of Employer. For purposes of this Agreement, the term "*Trade Secret*" means any item of Confidential Information that constitutes a trade secret of Employer or any of the Affiliated Entities under the common law or statutory law of the state of Nevada. The Parties acknowledge and agree that this Agreement is not intended to, and does not, alter either Employer's rights or Employee's obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices.

(d) It is acknowledged and agreed that any breach or threatened breach of the provisions of this Section 3 would cause irreparable injury to Employer and that money damages would not provide an adequate remedy to Employer. In the event of a breach or threatened breach by Employee of this Section 3, Employer shall be entitled to an injunction restraining Employee from disclosing any Confidential Information or Trade Secrets, and, further, from accepting any employment with or rendering any services to any such third-party to whom any Confidential Information or Trade Secret has been disclosed or is threatened to be disclosed by Employee.

(e) Nothing contained in this Section 3 shall be construed as prohibiting Employer from pursuing any other equitable or legal remedies for any such breach or threatened breach, including

recovery from Employee of any monetary damages that Employer may suffer by reason of any such breach or threatened breach.

4. Restrictive Covenants. Employee and Employer understand and agree that the purpose of this Section 4 is solely to protect Employer's legitimate business interests, including, but not limited to Confidential Information and Trade Secrets, Partner relationships and goodwill, and Employer's competitive advantage within the Industry in the operation of the Businesses or provision of Services. This Section 4 is not intended to impair, nor will it impair, Employee's ability or right to work or earn a living. Employee and Employer further understand and agree that this Section 4 represents an important element of this Agreement, and is a material inducement to Employer entering into this Agreement, without which Employer would not have entered into this Agreement.

(a) **Covenant Not to Compete.** Employee acknowledges that Employee's duties as an employee and member of Employer's Leadership Team will entail involvement with the entire range of Employer's operations across the Industry, and that Employee's extensive familiarity with Employer's provision of Services, Confidential Information and Trade Secrets justifies a restriction applicable across the entire geographic footprint in which Employer provides Services. To the fullest extent permitted by any applicable state law, Employee agrees that during Employee's continuous employment with Employer, and for the period of twelve (12) months immediately following the Termination Date, Employee shall not, without the prior written consent of Employer, directly or indirectly, obtain or hold a Competitive Position with a Competitor in the Restricted Territory, as these terms are defined herein.

(i) For purposes of this Agreement, a "**Competitive Position**" means any employment with or service to be performed (whether as owner, member, manager, lender, partner, shareholder, consultant, agent, employee, co-venturer, or otherwise) for a Competitor in which Employee (A) will use or disclose or could reasonably be expected to use or disclose any Confidential Information or Trade Secrets for the purpose of providing, or attempting to provide, such Competitor with a competitive advantage in the Industry or (B) will hold a position, will have duties, or will perform or be expected to perform services for such Competitor, that is or are the same as or substantially similar to the position held by Employee with Employer or those duties or services actually performed by Employee for Employer in connection with the provision of Services by Employer, or (C) will otherwise engage in the Businesses, or market, sell or provide Services in competition with Employer.

(ii) For purposes of this Agreement, "**Competitor**" means any third-party (A) whose business is the same as or substantially similar to the Business or major segment thereof, or (B) who owns or operates, intends to own or operate, or is preparing to own or operate a subsidiary, affiliate, or business line or business segment whose business is or is expected to be the same as or substantially similar to the Business or major segment thereof.

(iii) For purposes of this Agreement, "**Restricted Territory**" means anywhere in the world.

Employee shall be deemed to be in a Competitive Position with a Competitor in the Restricted Territory if Employee obtains or holds a Competitive Position with a Competitor that conducts its business within the Restricted Territory (and Employee's responsibilities relate to that Competitor's business in the Restricted Territory), even if Employee's residence or principal place of work (other than as permitted by applicable law) is not within the Restricted Territory.

Notwithstanding the foregoing, Employee may, as a passive investor, own capital stock of a publicly held corporation, which is actively traded in the over-the-counter market or is listed and traded on a national securities exchange, which constitutes or is affiliated with a Competitor, so long as Employee's ownership is not in excess of five percent (5%) of the total outstanding capital stock of the Competitor.

(b) Non-Solicitation / No Interference Provisions.

(i) Business Partners. Employee understands and agrees that the relationship between Employer and each of its licensors, licensees, suppliers, vendors, contractors, subcontractors, consultants, customers, and prospective customers related to the Business or the provision of Services (the “*Partners*”) constitutes a valuable asset of Employer, and may not be misappropriated for Employee’s own use or benefit or for the use or benefit of any other third-party. Accordingly, Employee hereby agrees that during Employee’s employment by Employer and for the period of twelve (12) months immediately after the Termination Date, Employee shall not, without the prior written consent of Employer, directly or indirectly, on Employee’s own behalf or on behalf of any other third-party:

(A) call-on, solicit, divert, take away or attempt to call-on, solicit, divert, or take away any of the Partners (1) with whom or with which Employee had communications on Employer’s behalf about the Partner’s existing or potential business relationship with Employer with respect to the Business or provision of Services; (2) whose business dealings with Employer are or were managed or supervised by Employee as part of his duties for Employer; or (3) about whom or about which Employee obtained Confidential Information or Trade Secrets solely as a result of Employee’s employment with Employer; or

(B) interfere or engage in any conduct that would otherwise have the effect of interfering, in any manner with the business relationship between Employer and any of the Partners, including, but not limited to, urging or inducing, or attempting to urge or induce, any Partner to terminate its relationship with Employer or to cancel, withdraw, reduce, limit, or modify in any manner such Partner’s business or relationship with Employer.

(ii) Employees. Employee understands and agrees that the relationship between Employer and each of its employees constitutes a valuable asset of Employer and such assets may not be converted to Employee’s own use or benefit or for the use or benefit of any other third-party. Accordingly, Employee hereby agrees that during Employee’s employment with Employer and for the period of twelve (12) months immediately after the Termination Date, Employee shall not, without Employer’s prior written consent, directly or indirectly, solicit or recruit for employment; attempt to solicit or recruit for employment; or attempt to hire or accept as an employee, consultant, contractor, or otherwise, any employee of Employer engaged in the Business or provision of Services; or unlawfully urge, encourage, induce, or attempt to urge, encourage, or induce any employee of Employer engaged in the Business or provision of Services to terminate his or her employment with Employer.

(c) Post-Termination Covenants by Employee.

(i) Upon the termination of Employee’s employment hereunder, regardless of (A) the date, cause, or manner of the termination of Employee’s employment with Employer, (B) whether such termination occurs with or without Cause or is a result of Employee’s resignation, or (C) whether Employer provides severance benefits to Employee under this Agreement, Employee shall resign and does resign from all positions as an employee and officer of Employer and from any other positions with Employer, with such resignations to be effective upon the Termination Date.

(ii) From and after the Termination Date, Employee agrees not to make any statements to Employer’s employees, customers, vendors, or suppliers or to any public or media source, whether written or oral, regarding Employee’s employment hereunder or termination from Employer’s employment, except as may be approved in writing by an executive officer of Employer in advance. Employee further agrees not to make any statement (including to any media source, or to Employer’s suppliers, customers or employees) or take any action that would

disrupt, impair, embarrass, harm or affect adversely Employer or any of the employees, officers, directors, or customers of Employer or place Employer or such individuals in any negative light. Testimony under oath to any governmental authority shall not be subject to the provisions of this Section 4(c)(ii).

(iii) From and after the Termination Date, Employee agrees to cooperate with and provide assistance to Employer and its legal counsel in connection with any litigation (including arbitration or administrative hearings) or investigation affecting Employer, in which, in the reasonable judgment of Employer's counsel, Employee's assistance or cooperation is needed. Employee shall, when requested by Employer, provide truthful testimony or other assistance and shall travel at Employer's request in order to fulfill this obligation. In connection with such litigation or investigation, Employer shall attempt to accommodate Employee's schedule, shall reimburse Employee (unless prohibited by law) for any actual loss of wages in connection therewith, shall provide Employee with reasonable notice in advance of the times in which Employee's cooperation or assistance is needed, and shall reimburse Employee for any reasonable expenses incurred in connection with such matters.

(d) **Enforcement of Restrictive Covenants.** Notwithstanding any other provision of this Agreement, in the event of Employee's actual or threatened breach of any provision of this Section 4, Employer shall be entitled to an injunction restraining Employee from such breach or threatened breach, without the requirement of posting any bond or the necessity of proof of actual damage, it being agreed that any breach or threatened breach of these restrictive covenants would cause immediate and irreparable injury to Employer and that money damages would not provide an adequate remedy to Employer. Nothing herein shall be construed as prohibiting Employer from pursuing any other equitable or legal remedies for such breach or threatened breach, including the recovery of monetary damages from Employee. The period of any restriction set forth in this Section 4 shall be extended by any period of time that Employee is or has been found to be in breach of any provision in this Section 4.

(e) **Employee Acknowledgement.** Employee acknowledges and agrees that:

(i) the restrictive covenants contained in this Agreement constitute material inducement to Employer entering into this Agreement and agreeing to employ Employee on the terms and conditions stated herein;

(ii) the restrictive covenants contained in this Agreement are reasonable in time, territory, and scope, and in all other respects;

(iii) should any part or provision of any covenant be held invalid, void, or unenforceable in any court of competent jurisdiction, such invalidity, voidness, or unenforceability shall not render invalid, void, or unenforceable any other part or provision of this Agreement; and

(iv) if any portion of the foregoing provisions is found to be invalid or unenforceable by a court of competent jurisdiction because its duration, territory, definition of activities, or definition of information covered is considered to be invalid or unreasonable in scope, the invalid or unreasonable terms shall be redefined to carry out Employer's and Employee's intent in agreeing to these restrictive covenants.

These restrictive covenants shall be construed as agreements independent of any other provision in this Agreement and the existence of any claim or cause of action of Employee against Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Employer of these restrictive covenants.

5. Employer's Rights to Inventions and Other Intellectual Property.

(a) Employee hereby assigns to Employer all of Employee's rights, title, and interest (including, but not limited to all patent, trademarks, copyright, and trade secret rights) in and to all Work Product (as defined below) prepared or developed by Employee, made or conceived in whole or in part by Employee within the scope of Employee's employment by Employer, or that involve the use of Confidential Information or Trade Secrets within six (6) months thereafter. Employee further acknowledges and agrees that all copyrightable Work Product prepared by Employee within the scope of Employee's employment by Employer are "works made for hire" and, consequently, that Employer owns all copyrights thereto.

(b) Employee represents and warrants to Employer that all work that Employee performs for or has performed for Employer, and all Work Product that Employee produces, which includes, but is not limited to, software, copyrights, trademarks, domain names, domain name registrations, documentation, memoranda, ideas, designs, inventions, processes, new developments or improvements, and algorithms ("**Work Product**"), will not knowingly infringe upon or violate any patent, copyright, trade secret, or other property right of Employee's former employers or of any other third party. Employee will not disclose to Employer, or use in any of Employee's Work Product, any confidential or proprietary information belonging to others, unless both the owner thereof and Employer have consented.

(c) Notwithstanding the other provisions of this Section 5, Employee shall not be required to assign, transfer, or convey to Employer any of the rights, title, and interest Employee may have in any Work Product that Employee invents, discovers, originates, makes, or conceives during Employee's employment by Employer if and only if (i) no equipment, supplies, facilities, Confidential Information, or Trade Secrets are used in the creation of the Work Product, (ii) the Work Product was developed entirely on Employee's own time, (iii) the Work Product does not relate directly to the Business or to Employer's actual or demonstrably anticipated research or development, and (iv) the Work Product does not result in any way from any work performed by Employee for Employer.

6. Dispute Resolution. All disputes and controversies arising out of or in connection with this Agreement, Employee's employment with the Employer, or the transactions contemplated hereby shall be resolved exclusively by the state and federal courts located in the County of Clark, in the State of Nevada, and each party hereto agrees to submit to the jurisdiction of said courts and agrees that venue shall lie exclusively with such courts. Each party hereby irrevocably waives, to the fullest extent permitted by applicable law, any objection which such party may raise now, or hereafter have, to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. Each party agrees that, to the fullest extent permitted by applicable law, a final judgment in any such suit, action, or proceeding brought in such a court shall be conclusive and binding upon such party, and may be enforced in any court of the jurisdiction in which such party is or may be subject by a suit upon such judgment. In any adversarial proceedings between the parties arising out of this Agreement, the prevailing party will be entitled to recover from the other party, in addition to any other relief awarded, all expenses that the prevailing party incurs in those proceedings, including attorneys' fees and expenses. For purposes of the foregoing, (i) "prevailing party" means (A) in the case of the party initiating the enforcement of rights or remedies, that it was awarded relief on substantially all of its claims, and (B) in the case of the party defending against such enforcement, that it successfully defended substantially all of the claims made against it, and (ii) if no party is a "prevailing party" within the meaning of the foregoing, then no party will be entitled to recover its costs and expenses (including attorney's fees and disbursements) from any other party.

7. No Conflict. Employee represents and warrants that Employee is not subject to any agreement, instrument, order, judgment or decree of any kind, or any other restrictive agreement of any character, which would prevent Employee from entering into this Agreement or would conflict with the

performance of Employee's duties pursuant to this Agreement. Employee represents and warrants that Employee will not engage in any activity, which would conflict with the performance of Employee's duties pursuant to this Agreement.

8. Notices. Any notice, requests, demands and other communications to be given to a party in connection with this Agreement shall be in writing addressed to such party in person or at such party's "Notice Address," which shall initially be as set forth below:

If to Employer:

GALAXY GAMING, INC.
6767 Spencer Street
Las Vegas, Nevada 89119
Attn: CEO

with a copy to (which shall not constitute notice):

Kirton McConkie, PC
50 E. South Temple, Suite 400
Salt Lake City, Utah 84111
Attn: Alexander N. Pearson, Esq.

If to Employee:

Harry Hagerty
[address on file with Employer]

A party's Notice Address may be changed or supplemented from time to time by such party by notice thereof to the other party as herein provided. Any such notice shall be deemed effectively given to and received by a party on the first to occur of (a) the date on which such notice is actually delivered (whether by mail, courier, hand delivery, electronic or facsimile transmission or otherwise) to such party's Notice Address and addressed to such party, if such delivery occurs on a business day, or if such delivery occurs on a day which is not a business day, then on the next business day after the date of such delivery, (b) upon personal delivery to the party to be notified, or (c) the date on which such notice is actually received by such party (or, in the case of a party that is not an individual, actually received by the individual designated in the Notice Address of such party). For purposes of the preceding sentence, a "business day" is any day other than a Saturday, Sunday or U.S. federal public legal holiday.

9. Miscellaneous.

(a) Waiver of Breach. The waiver by either Party of a breach or violation of any provision of this Agreement shall not operate as, or be construed to be, a waiver of any subsequent breach of the same or other provision hereof. The failure of either Party to insist, in any one or more instances, upon performance of any of the terms, conditions, or restrictive covenants contained in this Agreement shall not be construed as a waiver or a relinquishment of any right granted hereunder or of the future performance of any such term or condition, but the obligations of each Party with respect thereto shall continue in full force and effect.

(b) Severability. Any provision of this Agreement that is determined to be invalid or unenforceable by any court of competent jurisdiction will not affect the validity or enforceability of (i) any other provision hereof or (ii) the invalid or unenforceable provision in any other situation or in any other jurisdiction. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

(c) Assignability. Except as otherwise provided herein, this Agreement shall inure to the benefit of and shall be binding upon Employee, his or her executor, administrators, heirs, and personal representatives and upon Employer and its successors and assigns. The rights, obligations, and duties of Employee hereunder may be assigned by Employer to any successor of Employer, and such successor is

expressly authorized to enforce all the terms and provisions of this Agreement, including without limitation the terms and provisions of Sections 3, 4 and 5 hereof. Employee's obligations under this Agreement shall not be assignable by Employee.

(d) **Choice of Law.** This Agreement shall be governed by the laws of the State of Nevada without regard to its choice of law rules.

(e) **Amendments; Entire Agreement.** This Agreement (i) constitutes the entire agreement between the Parties with respect to the subject matter of this Agreement and (ii) supersedes all prior and contemporaneous agreements (whether written or oral and whether express or implied) between the Parties to the extent related to the subject matter of this Agreement. No amendment of any provision of this Agreement will be valid unless the amendment is in writing and signed by Employer and Employee. Without limiting the generality of the foregoing, the obligations under this Agreement with respect to any termination of employment of Employee, for whatever reason, supersede any severance or related obligations of Employer in any policy, plan or practice of Employer or any agreement between Employee and Employer. Further, this Agreement shall not affect, or be affected by, any indemnification agreement between the Parties.

(f) **Headings.** Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

(g) **Counterparts.** This Agreement may be executed by the Parties in multiple counterparts and shall be effective as of the Effective Date when each party shall have executed and delivered a counterpart hereof, whether or not the same counterpart is executed and delivered by each Party. When so executed and delivered, each such counterpart shall be deemed an original and all such counterparts shall be deemed one and the same document. Transmission of images of signed signature pages by facsimile, e-mail or other electronic means shall have the same effect as the delivery in person of manually signed documents.

(h) **Compliance with Section 409A.** This Agreement is intended to comply with Section 409A of Internal Revenue Code of 1986, as amended ("**Section 409A**"), to the extent applicable. Notwithstanding any provision herein to the contrary, this Agreement shall be interpreted, operated and administered consistent with this intent. Each separate installment under this Agreement shall be treated as a separate payment for purposes of determining whether such payment is subject to or exempt from compliance with the requirements of Section 409A. In addition, in the event that Employee is a "specified employee" within the meaning of Section 409A (as determined in accordance with the methodology established by Employer as in effect on the date of termination of Employee's employment hereunder), any payment or benefits hereunder that are nonqualified deferred compensation subject to the requirements of Section 409A shall be provided to Employee no earlier than six (6) months after the date of Employee's "separation from service" within the meaning of Section 409A.

[signatures follow on next page]

IN WITNESS WHEREOF, Employer has caused this Employment Agreement to be executed by its duly authorized officer, and Employee has hereunto signed this Agreement, as of the Effective Date.

“Employer”:

GALAXY GAMING, INC.

By: /s/ ROBERT B. SAUCIER

Name: Robert B. Saucier

Title: Chief Executive Officer

“Employee”:

By : /s/ HARRY C. HAGERTY

Name: Harry C. Hagerty

EXHIBIT A

Employee: Harry Hagerty

Effective Date of Employment: May 1, 2017

Position: Chief Financial Officer, Secretary, Treasurer

Responsibilities:

1. Employee shall oversee and manage the following functions within Employer:
 - a. Finance
 - i. Accounting
 - ii. Treasury
 - iii. Tax
 - iv. Financial Reporting
 - v. Budgeting
 - vi. Risk Management
 - vii. Strategy/M&A
 - viii. Investor Relations
 - b. Legal
 - i. Intellectual Property
 - ii. Compliance
 - c. Administration
 - i. Information Technology
 - ii. Human Resources
 - iii. Facilities
 - d. Other functions and responsibilities as determined by the Chief Executive Officer.
2. Employee agrees that 1) the assignment of the Legal functions listed in 1(b) above to a General Counsel of the Company or equivalent; 2) the assignment of the Human Resources function listed in 1(c)(ii) above to a Human Resources manager or equivalent; and 3) the assignment of the Information Technology function listed in 1(c)(i) above to a Chief Information Officer or equivalent shall not constitute "Good Reason" for purposes of Section 2(c)(iii) of the Agreement.

Compensation and Benefits:

1. **Base Salary.** Employer will pay to Employee a base salary at an annual rate of \$120,000 during the Term of the Agreement, (as adjusted, the "**Base Salary**"), payable in accordance with Employer's customary payroll practices as in effect from time to time. The Base Salary shall be reviewed in a manner consistent with Employer's compensation program.
2. **Bonuses; Additional Compensation.** In addition to those set forth in this Exhibit A, Employee may be eligible to receive bonuses and to participate in incentive compensation plans of Employer in accordance with any plan or decision that the Board, or any committee or other person authorized by the Board, may in its sole discretion determine from time to time.
3. **Reimbursement of Expenses.** Employee shall be paid or reimbursed by Employer, in accordance with and subject to Employer's general expense reimbursement policies and practices and Employer's receipt of

evidence of such expenses reasonably satisfactory to Employer, for all reasonable travel and other business expenses incurred by Employee in performing his obligations under this Agreement.

4. Benefits. Employee shall be eligible to participate in Employer's medical and dental insurance programs, 401(k), and other employee benefit or welfare plan, program, or arrangement that Employer has or may from time to time establish or sponsor for the benefit of Employer's employees, upon Employee meeting any qualifications for participation in such plan(s), program(s), or arrangement(s).

5. Incentive Compensation.

- o Employee shall be eligible to the following bonus/incentive compensation, subject in the case of any bonus to the prior approval of Employer's Board:
 - Management Bonus. Provided the Board determines that certain Employer metrics have been met, Employee shall be eligible to receive an annual discretionary bonus in accordance with the Employer's Management Bonus plan as determined by the Employer's Board. If a determination is made by the Board to pay the Management Bonus, it will be paid on or before March 15th of the year following the fiscal year in which such bonus was earned. The determination by the Board to pay a Management Bonus will be uniform among similarly-situated employees of the Company without bias to Employee. With respect to any bonus payable for fiscal 2017, such bonus shall be calculated as if employment under the Agreement commenced on February 6, 2017.
 - Stock Option Grant. In consideration of making the covenants to not compete set forth in Section 4(a) of this Agreement, Employee shall, upon execution of this Agreement, be granted an option to purchase up to 400,000 shares of Employer's restricted common stock with a strike price equal to \$0.60 per share, which option will vest as follows: (i) immediately as to the first 100,000 shares of stock, (ii) as to the next 300,000 shares of stock, 100,000 shares on each of the first, second and third anniversaries of the Effective Date, all pursuant to the terms of a Stock Option Grant Agreement by and between Employer and Employee. The exercise life of the options shall be five years from the date of grant or 90 days from the date of Employee's separation from Employer.

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[Galaxy Gaming, Inc. Exhibit A to Employment Agreement]

CERTIFICATIONS

I, Robert B. Saucier, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2017 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: May 15, 2017

/s/ ROBERT B. SAUCIER

By: Robert B. Saucier

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 March 31, 2017 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: May 15, 2017

/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 March 31, 2017 filed with the Securities and Exchange Commission (the "Report"), I, Robert B. Saucier, 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/ ROBERT B. SAUCIER
Name: Robert B. Saucier
Title: Principal Executive Officer and Director
Date: May 15, 2017

By: /s/ HARRY C. HAGERTY
Name: Harry C. Hagerty
Title: Principal Financial Officer and Director
Date: May 15, 2017

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