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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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	**20-8143439**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

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

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

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

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

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

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: 17,910,344 common shares as of November 10, 2019.

GALAXY GAMING, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

GALAXY GAMING, INC.
CONDENSED BALANCE SHEETS

ASSETS	September 30, 2019	December 31, 2018
	(Unaudited)	
Current assets:		
Cash, cash equivalents and restricted cash	$ 8,577,296	$ 6,311,563
Accounts receivable, net of allowance of $82,936 and $54,136, respectively	3,225,242	2,849,861
Inventory, net	689,767	531,814
Income tax receivable	337,292	—
Prepaid expense	550,340	510,254
Other current assets	4,541	3,352
Total current assets	13,384,478	10,206,844
Property and equipment, net	137,349	199,585
Operating lease right-of-use assets	101,958	—
Assets deployed at client locations, net	419,035	471,562
Goodwill	1,091,000	1,091,000
Other intangible assets, net	7,782,892	8,890,252
Deferred tax assets, net	338,676	334,482
Total assets	$ 23,255,388	$ 21,193,725
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 1,014,502	$ 681,936
Accrued expenses	1,285,310	1,295,570
Income taxes payable	—	82,091
Revenue contract liability	1,294,680	1,438,492
Deferred rent, current portion	—	14,025
Current portion of long-term debt	1,437,950	1,456,847
Current portion of operating lease liabilities	83,953	—
Other current liabilities	—	21,654
Total current liabilities	5,116,395	4,990,615
Long-term operating lease liabilities	23,074	—
Long-term debt, net	46,680,702	8,649,828
Interest rate swap liability	174,621	96,181
Total liabilities	51,994,792	13,736,624
Commitments and Contingencies (See Note 11)		
Stockholders' equity (deficit)		
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; 17,910,344 and 39,921,591 shares issued and outstanding, respectively	17,910	39,922
Additional paid-in capital	5,536,497	4,733,701
Accumulated earnings (deficit)	(34,293,811)	2,683,478
Total stockholders' equity (deficit)	(28,739,404)	7,457,101
Total liabilities and stockholders' equity (deficit)	$ 23,255,388	$ 21,193,725

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue:				
Product leases and royalties	$ 5,371,450	$ 4,775,754	$ 16,116,533	$ 13,672,459
Product sales and service	196	30	1,050	191
Total revenue	5,371,646	4,775,784	16,117,583	13,672,650
Costs and expenses:				
Cost of ancillary products and assembled components	37,674	47,828	167,009	107,215
Selling, general and administrative	3,460,319	2,559,056	9,941,029	7,741,213
Research and development	208,253	373,456	685,693	816,657
Depreciation and amortization	476,112	462,402	1,439,220	1,372,752
Share-based compensation	242,016	192,998	678,199	550,588
Total costs and expenses	4,424,374	3,635,740	12,911,150	10,588,425
Income from operations	947,272	1,140,044	3,206,433	3,084,225
Other income (expense):				
Interest expense	(361,188)	(206,425)	(818,555)	(819,837)
Foreign currency exchange loss	(69,470)	(22,095)	(57,299)	(542)
Change in estimated fair value of interest rate swap liability	13,162	48,528	(78,440)	(28,707)
Loss on extinguishment of debt	—	(1,765)	—	(1,349,271)
Non-recurring severance expense	(185,000)	—	(185,000)	—
Interest income	25,326	343	45,891	974
Total other expense	(577,170)	(181,414)	(1,093,403)	(2,197,383)
Income before benefit (provision) for income taxes	370,102	958,630	2,113,030	886,842
Benefit (provision) for income taxes	210,132	(166,662)	(17,189)	(154,799)
Net income	$ 580,234	$ 791,968	$ 2,095,841	$ 732,043
Net income per share:				
Basic	$ 0.03	$ 0.02	$ 0.07	$ 0.02
Diluted	$ 0.03	$ 0.02	$ 0.07	$ 0.02
Weighted-average shares outstanding:				
Basic	17,774,022	39,844,863	28,083,665	39,805,144
Diluted	19,102,709	41,184,368	29,672,645	41,059,384

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

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

	Common Stock		Additional Paid in Capital	Accumulated Earnings (Deficit)	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Beginning balance, December 31, 2018	39,921,591	$ 39,922	$ 4,733,701	$ 2,683,478	$ 7,457,101
Common stock redemption	(23,271,667)	(23,271)	—	(39,073,130)	(39,096,401)
Net income	—	—	—	1,515,607	1,515,607
Stock options exercised	556,220	556	96,051	—	96,607
Share based compensation expense	546,600	546	435,636	—	436,182
Balance, June 30, 2019	17,752,744	17,753	5,265,388	(34,874,045)	(29,590,904)
Net income	—	—	—	580,234	580,234
Stock options exercised	75,000	75	29,175	—	29,250
Share based compensation expense	82,600	82	241,934	—	242,016
Balance, September 30, 2019	17,910,344	$ 17,910	$ 5,536,497	$ (34,293,811)	$ (28,739,404)

	Common Stock		Additional Paid in Capital	Accumulated Earnings	Total Shareholders' Equity
	Shares	Amount			
Beginning balance, December 31, 2017	39,565,591	$ 39,566	$ 3,957,703	$ 1,465,599	$ 5,462,868
Net loss	—	—	—	(59,595)	(59,595)
Share based compensation expense	278,000	278	357,312	—	357,590
Balance, June 30, 2018	39,843,591	39,844	4,315,015	1,406,004	5,760,863
Net income	—	—	—	791,968	791,968
Share based compensation expense	39,000	39	192,959	—	192,998
Balance, September 30, 2018	39,882,591	$ 39,883	$ 4,507,974	$ 2,197,972	$ 6,745,829

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

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Cash flows from operating activities:		
Net income	$ 2,095,841	$ 732,043
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	1,424,934	1,372,752
Amortization of lease right-of-use assets	203,205	—
Amortization of debt issuance costs and debt discount	25,584	119,809
Loss on extinguishment of debt	—	1,349,271
Bad debt expense	101,938	38,374
Change in estimated fair value of interest rate swap liability	78,440	28,707
Deferred income tax benefit	(4,194)	—
Share-based compensation	678,199	550,588
Unrealized foreign exchange gains on cash, cash equivalents and restricted cash	33,291	(24,601)
Changes in operating assets and liabilities:		
Accounts receivable	(477,319)	(187,445)
Inventory	(315,155)	(317,978)
Prepaid expenses	(40,086)	(74,165)
Other current assets	—	20,156
Accounts payable	332,566	(524,503)
Accrued expenses	(14,826)	335,838
Income taxes receivable/payable	(414,817)	(625,788)
Revenue contract liability	(143,812)	137,619
Operating lease liabilities	(197,875)	—
Other current liabilities	(71,581)	(107,054)
Deferred rent	—	(16,666)
Net cash provided by operating activities	3,294,333	2,806,957
Cash flows from investing activities:		
Investment in intangible assets	(27,400)	(33,048)
Acquisition of property and equipment	(32,495)	(67,050)
Net cash used in investing activities	(59,895)	(100,098)
Cash flows from financing activities:		
Proceeds from debt issued	—	11,098,986
Proceeds from stock option exercises	189,981	—
Payments of debt issuance costs	(5,736)	(136,162)
Payment of warrant liability	—	(1,333,333)
Principal payments on finance lease obligations	(14,198)	(24,415)
Principal payments on long-term debt	(1,105,461)	(10,296,900)
Payments of long-term debt redemption premium	—	(374,500)
Net cash used in financing activities	(935,414)	(1,066,324)
Effect of exchange rate changes on cash	(33,291)	24,601
Net increase in cash, cash equivalents and restricted cash	2,265,733	1,665,136
Cash, cash equivalents and restricted cash – beginning of period	6,311,563	3,581,209
Cash, cash equivalents and restricted cash – end of period	$ 8,577,296	$ 5,246,345
Supplemental cash flow information:		
Cash paid for interest	$ 502,764	$ 700,027
Cash paid for income taxes	$ 436,200	$ 795,818
Supplemental schedule of non-cash activities:		
Common stock redemption in exchange for promissory note	$ 39,096,401	$ —
Right-of-use assets obtained in exchange for lease liabilities	$ 305,163	$ —
Inventory transferred to assets deployed at client locations	$ 157,202	$ 147,434

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

NOTE 1. NATURE OF OPERATIONS AND RECENT DEVELOPMENTS

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

We are an established global gaming company specializing in the design, development, assembly, marketing and acquisition of proprietary casino table games and associated technology, platforms and systems for the casino gaming industry. Casinos use our proprietary products and services to enhance their gaming floor operations and improve their profitability, productivity and security, as well as to offer popular cutting-edge gaming entertainment content and technology to their players. We market our products and services to land-based and riverboat gaming companies located in North America, the Caribbean, Central America, the British Isles, Europe and Africa and to cruise ship companies and internet gaming sites worldwide.

On March 14, 2019, we announced the completion of our previously disclosed strategic alternatives review. After a thorough evaluation of arange of strategic alternatives, including a sale of the Company, we have decided to continue our existing plan of product line and geographic expansions as an independent company.

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

As consideration for the redemption, we issued a promissory note payable to Triangulum in the face amount of $39,096,401 (the “Triangulum Promissory Note”). See Note 10.

Furthermore, we filed a lawsuit on May 6, 2019 seeking (i) a declaratory judgment that we acted lawfully and in full compliance with the Articles when we redeemed the Triangulum shares and (ii) certain remedies for breach of fiduciary duty and breach of contract by Triangulum and its Managing Member, Mr. Saucier (the “Triangulum Lawsuit”). The suit alleges that the redemption and the other relief sought by us are appropriate and in accordance with the Articles of Incorporation (Galaxy Gaming, Inc. v. Triangulum Partners, LLC, Robert B. Saucier, Clark County, Nevada district court (Case No. A-19-794293-B)).

The defendants to that lawsuit responded to the complaint, and Triangulum filed counterclaims based on a theory of wrongful redemption by us. The defendants also filed a Motion for Preliminary Injunction seeking the redeemed shares be held in a constructive trust. On July 11, 2019, the Court denied the defendants’ Motion for Preliminary Injunction and all related relief. On September 6, 2019, Defendants appealed the denial of the Motion for Preliminary Injunction to the Nevada Supreme Court. We will oppose the appeal, but a briefing schedule has not yet been set by the Supreme Court. Separately, Triangulum filed amended counterclaims, which we moved to dismiss on a number of legal grounds. The Court denied the motion, stating that the amended complaint was sufficiently plead. The Company will file a Petition for a Writ of Mandamus challenging the ruling.

On October 18, 2019, Saucier also filed counterclaims centered similarly on a theory of wrongful redemption, and also claims that for breach of contract and quantum meruit, alleging Galaxy Gaming was obligated to pay Saucier his year-end bonuses, despite his resignation. We will file a timely response, disputing these claims.

Effective June 3, 2019, our Board of Directors (the “Board”) appointed Michael Gavin Isaacs as an independent director. Upon joining the Board, Mr. Isaacs entered into a Board of Directors Services Agreement pursuant to which, among other things, Mr. Isaacs shall receive 75,000 shares of our restricted common stock, which vest in three annual installments on each of the first three anniversary dates of the services agreement. Mr. Isaacs shall also receive quarterly grants of 12,400 common shares (vesting immediately at grant date) for his continued service as a director and shall receive $42,000 in cash compensation annually, paid monthly in arrears. As a non-employee director, he will be entitled to receive any other annual cash and equity compensation payable to our other non-employee directors from time to time.

On August 28, 2019, the Company held its Annual Shareholder meeting. The detailed results are available for review as previously reported on Form 8-K. The Company’s current Board of Directors were reelected to stand for the next period.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying condensed financial statements have been prepared in accordance withgenerally 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, the accompanying unaudited interim condensed financial statements contain all necessary adjustments (including all those of a recurring nature and those necessary in order for the financial statements to be not misleading) and all disclosures to present fairly our financial position and the results of our operations and cash flows for the periods presented. 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.

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, 2018, filed with the SEC on April 1, 2019 (the "2018 10-K").

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

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

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.

Other Significant Accounting Policies. *S*ee Note 3 in Item 8. "Financial Statements and Supplementary Data" included in our 2018 10-K.

Recently adopted accounting standards

Leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 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. We have adopted the new standard effective January 1, 2019, using the modified retrospective transition approach and recognized $161,310 of right-of-use operating lease assets and $175,335 of operating lease liabilities on our balance sheets upon adoption (Note 9). In addition, we eliminated leasehold improvements related to a finance lease from fixed assets, recognized $14,286 of right-of-use finance lease assets and maintained the finance lease liability at the carrying cost of the previous capital lease liability of $14,198 upon adoption. The adoption has increased our total assets and liabilities as of January 1, 2019. Lessor accounting related to our enhanced table system remains unchanged.

New accounting standards not yet adopted

Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 addresses the required disclosures around fair value measurement, removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our financial statements.

Internal-Use Software. In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* ASU 2018-15. This new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The update is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption (including early adoption in any interim period) permitted. We do not believe the adoption of this guidance will have a material impact on our financial statements.

NOTE 3. REVENUE RECOGNITION

Revenue recognition. We generate revenue primarily from the licensing of our intellectual property. We also, occasionally, receive a one-time sale of certain products and/or reimbursement of our equipment.

License fees. We derive product lease and royalty revenue from negotiated recurring fee license agreements and the performance of our products. We account for these agreements as month-to-month contracts and recognize revenue each month as we satisfy our performance obligations by granting access to intellectual property to our clients. In addition, revenue associated with performance-based agreements is recognized during the month that the usage of the product or intellectual property occurs.

Some of our intellectual property requires the installation of certain equipment and both the intellectual property and the related equipment are licensed in one bundled package. We have determined that the equipment is not distinct from the intellectual property and, therefore, we have only one performance obligation and, as a result, the allocation of the transaction price to different performance obligations is not necessary.

Product sales. Occasionally, we sell certain incidental products or receive reimbursement of our equipment after the commencement of the new license agreement. Revenue from such sales is recognized as a separate performance obligation when we ship the items.

Disaggregation of revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
North America and Caribbean	$ 3,891,875	$ 3,622,729	$ 11,644,353	$ 10,568,129
Europe	1,479,771	1,153,055	4,473,230	3,104,521
Total revenue	$ 5,371,646	$ 4,775,784	$ 16,117,583	$ 13,672,650

Revenue contract liability

For a portion of our business, we invoice our clients monthly in advance for unlimited use of our intellectual property licenses and recognize a revenue contract liability that represents such advanced billing to our clients for unsatisfied performance. We reduce the revenue contract liability and recognize revenue when we transfer those goods or services and, therefore, satisfy our performance obligation.

The table below summarizes changes in the revenue contract liability during the nine months ended September 30, 2019:

Beginning balance – January 1, 2019	$ 1,438,492
Increase (advanced billings)	11,547,925
Decrease (revenue recognition)	(11,691,737)
Ending balance – September 30, 2019	$ 1,294,680

Revenue recognized during the nine months ended September 30, 2019 that was included in the beginning balance of revenue contract liability above was $1,436,410.

NOTE 4. INVENTORY

Inventory, net consisted of the following at:

	September 30, 2019	December 31, 2018
Raw materials and component parts	$ 361,433	$ 267,517
Finished goods	358,333	306,335
Inventory, gross	719,766	573,852
Less: inventory reserve	(29,999)	(42,038)
Inventory, net	$ 689,767	$ 531,814

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following at:

	September 30, 2019	December 31, 2018
Furniture and fixtures	$ 312,640	$ 312,640
Automotive vehicles	215,127	215,127
Leasehold improvements	9,883	156,843
Computer equipment	189,294	159,838
Office equipment	53,483	53,484
Property and equipment, gross	780,427	897,932
Less: accumulated depreciation	(643,078)	(698,347)
Property and equipment, net	$ 137,349	$ 199,585

Property and equipment, net included $150,000 of leasehold improvements acquired under capital leases and $135,714 of related accumulated depreciation as of December 31, 2018, both of which were reclassified to finance lease right-of-use assets upon the adoption of ASC 842 on January 1, 2019 (Note 9).

For the nine months ended September 30, 2019 and 2018, depreciation expense related to property and equipment was $80,445 and $99,944, respectively.

NOTE 6. ASSETS DEPLOYED AT CLIENT LOCATIONS

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

	September 30, 2019	December 31, 2018
Enhanced table systems	$ 1,042,997	$ 946,237
Less: accumulated depreciation	(623,962)	(474,675)
Assets deployed at client locations, net	$ 419,035	$ 471,562

For the nine months ended September 30, 2019 and 2018, depreciation expense related to assets deployed at client locations was $209,729 and $145,419, respectively.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill. A goodwill balance of $1,091,000 was created as a result of an asset acquisition completed in October 2011 from Prime Table Games, LLC.

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

	September 30, 2019	December 31, 2018
Patents	$ 13,485,000	$ 13,485,000
Customer relationships	3,400,000	3,400,000
Trademarks	2,880,967	2,880,967
Non-compete agreements	660,000	660,000
Internally-developed software	153,415	126,015
Other intangible assets, gross	20,579,382	20,551,982
Less: accumulated amortization	(12,796,490)	(11,661,730)
Other intangible assets, net	$ 7,782,892	$ 8,890,252

For the nine months ended September 30, 2019 and 2018, amortization expense related to the other intangible assets was $1,134,760 and $1,127,388, respectively.

Estimated future amortization expense is as follows:

Twelve Months Ending September 30,	Total
2020	$ 1,500,836
2021	1,410,341
2022	1,398,822
2023	253,507
2024	252,930
Thereafter	2,966,456
Total amortization	$ 7,782,892

NOTE 8. ACCRUED EXPENSES

Accrued expenses consisted of the following at:

	September 30, 2019	December 31, 2018
Payroll and related	$ 889,137	$ 1,136,808
Interest	322,249	—
Commissions and royalties	45,482	113,462
Other	28,442	45,300
Total accrued expenses	$ 1,285,310	$ 1,295,570

NOTE 9. LEASES

Lessee

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

On January 28, 2019, we executed a first amendment to the corporate office lease to amend the lease expiration date from September 30, 2019 to December 31, 2019, with monthly base rents of $20,508 from July 1, 2019 to December 31, 2019. As a result of the amendment, we recorded a $117,755 increase to operating lease right-of-use assets and operating lease liabilities. In connection with negotiating the original corporate office lease in 2014, the landlord agreed to finance tenant improvements of $150,000. Upon adoption of ASC 842 (effective January 1, 2019), the remaining amount was classified as a finance lease on the condensed balance sheet, which was paid in full by June 30, 2019.

As of September 30, 2019, our leases have remaining lease terms ranging from three months to 33 months. Gross right-of-use assets recorded under finance leases and operating leases were $14,286 and $290,877, respectively, and the related accumulated amortization was $14,286 and $188,919, respectively.

Supplemental balance sheet information related to leasesis as follows:

	As of September 30, 2019	
	Amount	Classification
Operating leases:		
Operating lease right-of-use lease assets	$ 101,958	
Operating lease current liabilities	$ 83,953	Current portion of operating lease liabilities
Operating lease long-term liabilities	23,074	Long-term operating lease liabilities
Total operating lease liabilities	$ 107,027	
Weighted-average remaining lease term:		
Operating leases	1.1 years	
Weighted-average discount rate:		
Operating leases	5.8%	

The components of lease expense are as follows:

	Three Months Ended September 30, 2019	
	Amount	Classification
Finance lease cost:		
Amortization of right-of-use assets	$ —	Depreciation and amortization
Interest on lease liabilities	—	Interest expense
Total finance lease cost	$ —	
Operating lease cost	$ 66,303	Selling, general and administrative expense

	Nine Months Ended September 30, 2019	
	Amount	Classification
Finance lease cost:		
Amortization of right-of-use assets	$ 14,286	Depreciation and amortization
Interest on lease liabilities	195	Interest expense
Total finance lease cost	$ 14,481	
Operating lease cost	$ 195,234	Selling, general and administrative expense

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30, 2019	
	Amount	Classification
Cash paid for amounts included in the measure of lease liabilities:		
Operating cash flows from finance leases	$ 195	Net income
Financing cash flows from finance leases	$ 14,198	Principal payments on finance lease obligations
Operating cash flows from operating leases	$ 195,234	Net income
Right-of-use assets obtained in exchange for lease liabilities:		
Finance leases	$ 14,286	Supplemental cash flow information
Operating leases	$ 290,877	Supplemental cash flow information

As of September 30, 2019, future maturities of our operating lease liabilities are as follows:

Twelve Months Ending September 30,		Amount
2020	$	83,524
2021		14,730
2022		8,773
Total lease liabilities	$	107,027

Lessor

Our agreements with the casino clients for the license ofproprietary tables games are outside of the scope of ASC 842 as such agreements are related to the license of intellectual property.

Enhanced table systems are electronic enhancements used on casino table games to add to player appeal and enhance game security. An example in this category is our Bonus Jackpot System ("BJS"), an advanced electronic system installed on gaming tables designed to collect data by detecting player wagers and other game activities. Typically, the BJS system includes a server, an electronic video display known as *TableVision*, which shows game information designed to generate player interest and to promote various aspects of the game, and other electronic components. Our BJS agreements with clients convey to them the rights to use equipment. However, these agreements are month-to-month and there is no penalty for either party to terminate the agreements without permission from the other party. As a result, these agreements are not considered leases and, therefore, are outside of the scope of ASC 842 as well.

NOTE 10. LONG-TERM DEBT

Long-term debt consisted of the following at:

	September 30, 2019	December 31, 2018
Nevada State Bank credit agreement	$ 9,041,000	$ 10,042,400
Triangulum Promissory Note	39,096,401	—
Vehicle notes payable	54,776	85,043
Insurance notes payable	—	73,794
Long-term debt, gross	48,192,177	10,201,237
Less: Unamortized debt issuance costs	(73,525)	(94,562)
Long-term debt, net	48,118,652	10,106,675
Less: Current portion	(1,437,950)	(1,456,847)
Long-term debt, long-term portion	$ 46,680,702	$ 8,649,828

Amendments to the Nevada State Bank ("NSB") Credit Agreement. On May 6, 2019, we entered into a Second Amendment to the Nevada State Bank ("NSB") Credit Agreement to (i) provide an additional $10 million Term Loan B availability under the Term Loan; and (ii) waive for a period of 180 days the breach of any covenant in the Credit Agreement resulting of the redemption of common stock held by Triangulum.

On August 16, 2019, we entered into a Third Amendment to the NSB Credit Agreement, pursuant to which we agreed to pay a fee on the unused amounts under the revolving portion of the credit agreement at a rate of 0.25% per annum, retroactive to April 22, 2019.

On October 14, 2019, we entered into a Fourth Amendment to the NSB Credit Agreement, which established a Senior Leverage Ratio (as defined in the amended Credit Agreement) of 2.0x for the remaining term of the NSB Credit Agreement. In addition, the Total Leverage Ratio (as defined in the amended Credit Agreement) was set at 7.25x, with semi-annual step-downs of 0.25x every six months, commencing June 30, 2020 through December 31, 2022. Lastly, the $10 million additional Term Loan B availability that was provided in the Second Amendment was eliminated.

Outstanding balances under amended NSB Credit Agreement accrue interest based on one-month US dollar London interbank offered rate ("LIBOR") plus an Applicable Margin of 3.50% or 4.00%, depending on our Leverage Ratio (as defined in the amended Credit Agreement).

Triangulum Promissory Note. On May 6, 2019, we issued the Triangulum Promissory Note in the face amount of $39,096,401. The Triangulum Promissory Note has no mandatory amortization, matures on May 5, 2029, and bears interest at a rate of 2% per annum, with accrued interest payable annually in arrears. It is unsecured and is subordinated to our existing and future indebtedness in accordance with its terms. We may prepay principal and any accrued interest in full or in part at any time.

As of September 30, 2019, future maturities of our long-term debt obligations are as follows:

Twelve Months Ending September 30,	Total
2020	$ 1,437,950
2021	1,530,149
2022	1,616,655
2023	4,511,022
2024	—
Thereafter	39,096,401
Long-term debt, gross	48,192,177
Less:	
Unamortized debt issuance costs	(73,525)
Long-term debt, net	$ 48,118,652

NOTE 11. COMMITMENTS AND CONTINGENCIES

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. For the nine months ended September 30, 2019 and 2018, respectively, we had the following client revenue concentration:

	Location	2019 Revenue	2018 Revenue	Accounts Receivable September 30, 2019	Accounts Receivable December 31, 2018
Client A	North America	9.4%	11.0%	$ 213,642	$ 207,343
Client B	Europe	9.9%	9.8%	$ 171,935	$ 156,478

Legal proceedings (also see Note 1). 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. 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.

On May 31, 2019 and June 6, 2019 respectively, Derek Webb and Hannah O'Donnell together filed a complaint and a related Motion for Order Granting Request to Compel an Annual Meeting, or in the Alternative for a Writ of Mandamus and Injunctive Relief (the "Motion"). The Motion sought the Court to compel us to hold an Annual Shareholder's Meeting in 2019 and also sought related relief: that we not issue shares or redeem any shares or amend its Bylaws in any manner that could affect the obligation to hold the meeting or elect directors at the meeting. On June 6, 2019, we notified the public of the holding of an Annual Meeting to take place on August 28, 2019 for shareholders of record of July 17, 2019. During a hearing held on July 11, 2019, the Court denied Webb and O'Donnell's Motion and all related relief. The Annual Meeting took place on August 28, 2019. On October 17, 2019, the Court dismissed the case as a result of a stipulation of the parties.

NOTE 12. STOCKHOLDERS' EQUITY (DEFICIT)

During the nine months ended September 30, 2019, we issued an aggregate of 229,200 restricted shares of our common stock valued at $388,919, to our board members in consideration of their service on the Board. These shares vested immediately on the grant date.

On May 6, 2019, we redeemed all 23,271,667 shares of our common stock held by Triangulum.

NOTE 13. INCOME TAXES

Our forecasted annual effective tax rate ("ETR") at September 30, 2019 was 16.5%, as compared to 17.5% at September 30, 2018. This decrease was primarily due to changes in permanent book-to-tax differences for the nine months ended September 30, 2019.

For the nine months ended September 30, 2019 and 2018, our ETR was 0.8% and 17.5%, respectively.The following discrete items during nine months ended September 30, 2019 caused the year-to-date effective tax rate to be significantly different from our historical ETR: (i) we recorded an income tax benefit of approximately $150,000 as a result of a prior period change in estimate related to the foreign-derived intangible income ("FDII") special deduction under Section 250 of the Internal Revenue Code, which reduced the ETR by 7.1% and (ii) we recorded an income tax benefit of approximately $180,000 as a result of tax benefits related to non-qualified stock options exercised during the period, which reduced the ETR by 8.5%.

NOTE 14. STOCK OPTIONS

On May 10, 2018, the Board ratified and confirmed the 2014 Equity Incentive Plan (the "2014 Plan"). The 2014 Plan is a broad-based plan under which 5,550,750 shares of our common stock are authorized for issuance for awards, including stock options, stock appreciation rights, restricted stock, and cash incentive awards to members of our Board, executive officers, employees and independent contractors. As of September 30, 2019, 177,634 shares remained available for issuance as new awards under the 2014 Plan.

Stock options. During the nine months ended September 30, 2019 and 2018, we issued 320,000 and 270,000 options to purchase our common stock, respectively, to members of our Board, executive officers, employees and independent contractors. The fair value of all stock options granted for the nine months ended September 30, 2019 and 2018 was determined to be $564,450 and $169,807, respectively, using the Black-Scholes option pricing model with the following assumptions:

	Options Issued 2019	Options Issued 2018
Dividend yield	0 %	0 %
Expected volatility	71.61% - 72.11 %	78 %
Risk free interest rate	1.37% - 2.51 %	2.46% - 2.73 %
Expected life (years)	5.00	5.00

On February 21, 2019, we amended the employment agreement between the Company and Todd Cravens, our President and Chief Executive Officer. Among other things, this amendment grants Mr. Cravens an option to purchase 150,000 shares of our common stock (the "2020 Option"). The 2020 Option, which vests on August 1, 2020 so long as Mr. Cravens remains a full-time employee of the Company on August 1, 2020, has an exercise price equal to the price per share of our common stock as reported on OTC Markets on August 1, 2020 (or the nearest trading date thereafter). If Mr. Cravens is terminated as a result of a change of control of the Company prior to August 1, 2020, the 2020 Option vests in full upon his termination at an exercise price of $1.90 per share (our common stock closing price on February 21, 2019).

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, 2018	3,496,250	$ 0.66	$ 2,608,329	3.04
Issued	320,000	1.76	—	—
Exercised	(712,916)	0.37	—	—
Forfeited or expired	(103,334)	0.94	—	—
Outstanding – September 30, 2019	3,000,000	$ 0.84	$ 2,992,800	2.88
Exercisable – September 30, 2019	1,988,333	$ 0.62	$ 2,426,025	3.65

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, 2018	1,161,666	$ 0.95	$ 535,475	4.15
Granted	320,000	1.76	—	—
Vested	(373,333)	0.76	—	—
Forfeited or expired	(96,666)	0.93	—	—
Unvested – September 30, 2019	1,011,667	$ 1.17	$ 680,526	4.39

As of September 30, 2019, our unrecognized share-based compensation expense associated with the stock options issued was $506,330, which will be amortized over a weighted-average of 2.04 years.

NOTE 15. 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 their carrying amount due to their short-term nature. The estimated fair value of our long-term debt and lease obligations approximates their carrying value based upon our expected borrowing rate for debt with similar remaining maturities and comparable risk. As of September 30, 2019, the interest rate swap agreement was the only financial instrument measured at estimated fair value on a recurring basis based on valuation reports provided by counterparties, which are classified as level 2 inputs.

NOTE 16. SUBSEQUENT EVENTS

We evaluate subsequent events through the date of issuance of the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended September 30, 2019 except as follows disclosed in Note 1 and Note 11 and as follows:

On October 10, 2019 the Board of Directors authorized a one million share increase in the number of shares available under the 2014 Plan.

On October 22, 2019 we entered into Amendment #3 to the employment agreement with our Chief Financial Officer ("Mr. Hagerty"). Among other things, Amendment #3 provides (i) that Mr. Hagerty's base salary will remain at the annual rate of $200,000.00; (ii) that Mr. Hagerty receive a grant of 200,000 options at a strike price of $1.972, vest as follows: 66,666 shares on October 22, 2020, 66,666 shares on October 22, 2021, and 66,668 shares on April 30, 2022; (iii) that the end date of the term of employment be extended from April 30, 2020 to April 30, 2022.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act, and is subject to the safe harbors created by those sections. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Such forward-looking statements speak only as of the date of this report; we undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us in this report, as well as the disclosures made in the 2018 10-K, and other filings we make with the Securities and Exchange Commission, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, operating results, financial condition and stock price.

Due to possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements contained in this Quarterly Report, which speak only as of the date of this Quarterly Report, or to make predictions about future performance based solely on historical financial performance. We disclaim any obligation to update forward-looking statements contained in this Quarterly Report.

OVERVIEW

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

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 2018 10-K and on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

Results of operations for the three months ended September 30, 2019 and 2018. For the three months ended September 30, 2019, we generated total revenues of $5,371,646 compared to total revenues of $4,775,784 for the comparable prior-year period, representing an increase of 595,862, or 12.5%. This increase was primarily attributable to higher revenue from additional placements for: (i) Bonus Jackpot System; and (ii) premium Games such as *High Card Flush, Heads Up Hold 'em, Cajun Stud and Super Three Card*.

Selling, general and administrative expenses for the three months ended September 30, 2019 were $3,460,319 compared to $2,559,056 for the comparable prior period, representing an increase of $901,263, or 35.2%. This increase was primarily due to $469,249 in expenses associated with the Triangulum Lawsuit and the contested proxy campaign and $82,650 in expenses related to rebranding. Excluding such expenses, selling, general and administrative expenses as a percentage of total revenue were 54.1% in the three months ended September 30, 2019 as compared to 53.6% in the comparable prior-year period.

Research and development expenses for the three months ended September 30, 2019 were $208,253, compared to $373,456 for the comparable prior-year period, representing a decrease of $165,203, or 44.2%. This decrease was primarily due to lower payroll and related costs as a result of the departure of our founder and former Executive Vice President of Business Development in November 2018 and the former Chief Technology Officer in July 2019.

Share-based compensation expenses for the three months ended September 30, 2019 was $242,016, as compared to $192,998 for the comparable prior-year period, representing an increase of $49,018, or 25.4%. This increase was mainly due to additional grants issued to members of the Board, executive officers, employees and independent contractors.

Income from operations decreased $192,772 or 16.9% to $947,272 for the three months ended September 30, 2019, compared to $1,140,044 for the comparable prior-year period. This decrease was primarily attributable to higher selling, general and administrative expenses principally related to the Triangulum lawsuit, the contested proxy and the rebranding.

Total interest expense increased $154,763, or 75.0%, to $361,188 for the three months ended September 30, 2019, compared to $206,425 for the comparable prior-year period. The increase was mainly attributable to interest accrued on the Triangulum Promissory Note

Loss on extinguishment of debt was $0 in the three months ended September 30, 2019, as compared to $1,765 for the comparable prior-year period. The loss in the comparable prior-year period was a result of legal expenses incurred in connection with the payoff of the previous term loan with Breakaway Capital Management, LLC (the "Breakaway Loan") that was extinguished on April 24, 2018.

Income tax benefit was $210,132 for the three months ended September 30, 2019, compared to income tax provision of $166,662 for the comparable prior-year period. This change was primarily attributable to (i) the income tax benefit of approximately $150,000 we recorded as a result of a prior period change in estimate related to the foreign-derived intangible income ("FDII") special deduction under Section 250 of the Internal Revenue Code, which reduced the ETR by 7.1% and (ii) the income tax benefit of approximately $180,000 as a result of tax benefits related to non-qualified stock options exercised during the period, which reduced the ETR by 8.5%.

Adjusted EBITDA (as defined below) was $2,217,299 for the three months ended September 30, 2019, compared to $1,795,444 for the comparable prior-year period, representing an increase of $421,855, or 23.5%. This increase was primarily attributable to higher earnings after the addback in 2019 of expenses associated with the Triangulum Lawsuit, the contested proxy campaign, rebranding expenses and severance expense.

Results of operations for the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019, we generated total revenues of $16,117,583 compared to total revenues of $13,672,650 for the comparable prior-year period, representing an increase of 2,444,933, or 17.9%. This increase was primarily attributable to higher revenue from additional placements for: (i) Bonus Jackpot System; (ii) premium Games such as *High Card Flush, Heads Up Hold 'em, Cajun Stud and Super Three Card*; and (iii) higher internet-based gaming activities.

Selling, general and administrative expenses for the nine months ended September 30, 2019 were $9,941,029 compared to $7,741,213 for thecomparable prior period, representing an increase of $2,199,816, or 28.4%. This increase was primarily due to $1,235,220 in expenses associated with the Triangulum Lawsuit and the contested proxy campaign and $95,150 of rebranding expenses incurred during the nine months ended September 30, 2019. Excluding such costs, selling, general and administrative expenses as a percentage of gross revenue decreased to 53.4% for the nine months ended September 30, 2019 from 56.6% for the comparable prior-year period.

Research and development expenses for the nine months ended September 30, 2019 were $685,693, compared to $816,657 for the comparable prior-year period, representing a decrease of $130,964, or 16.0%. This decrease was primarily due to lower payroll and related expenses as a result of the departure of our founder and former Executive Vice President of Business Development in November 2018 and the former Chief Technology Officer in July 2019.

Share-based compensation expenses for the nine months ended September 30, 2019 was $678,199, as compared to $550,588 for the comparable prior-year period, representing an increase of $127,611, or 23.2%. This increase was mainly due to additional grants issued to members of the Board, executive officers, employees and independent contractors.

Income from operations increased $122,208 or 4.0% to $3,206,433 for the nine months ended September 30, 2019, compared to $3,084,225 for the comparable prior-year period. This increase was primarily attributable to higher revenue, offset by higher selling, general and administrative expenses.

Total interest expense decreased $1,282, or 0.2%, to $818,555 for the nine months ended September 30, 2019, compared to $819,837 for the comparable prior-year period. The decrease was mainly attributable to a lower interest rate on the Term Loan as compared to the Breakaway Loan, partially offset by interest accrued on the Triangulum Promissory Note.

Loss on extinguishment of debt was $0 in the nine months ended September 30, 2019, as compared to $1,349,271 in the comparable prior-year period. The loss in the comparable prior-year period was a result of an early redemption premium paid in connection with the payoff of the previous term loan and the write-off of the associated unamortized debt issuance costs and unamortized fair value of the warrants.

Income tax provision was $17,189 for the nine months ended September 30, 2019, compared to income tax provision of $154,799 for the comparable prior-year period. This change was primarily attributable to (i) the income tax benefit of approximately $150,000 we recorded as a result of a prior period change in estimate related to the foreign-derived intangible income ("FDII") special deduction under Section 250 of the Internal Revenue Code, which reduced the ETR by 7.1% and (ii) the income tax benefit of approximately $180,000 as a result of tax benefits related to non-qualified stock options exercised during the period, which reduced the ETR by 8.5%.

Adjusted EBITDA (as defined below) was $6,654,222 for the nine months ended September 30, 2019, compared to $5,007,565 for the comparable prior-year period, representing an increase of $1,646,657, or 32.9%. This increase was primarily attributable to higher net income and addbacksin 2019 for costs associated with the strategic alternatives review, the Triangulum Lawsuit, the contested proxy campaign, rebranding expenses and a one-time severance expense of $185,000, partially offset by the addbacks related to the loss on extinguishment of debt in 2018.

Adjusted EBITDA. Adjusted EBITDA includes adjustments 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, change in estimated fair value of interest rate swap liability, and other non-recurring losses and non-cash charges. Adjusted EBITDA is not a measure of performance defined in accordance with U.S. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Adjusted EBITDA Reconciliation:	**2019**	**2018**	**2019**	**2018**
Net income	$ 580,234	$ 791,968	$ 2,095,841	$ 732,043
Interest expense	361,188	206,425	818,555	819,837
Foreign currency exchange loss	69,470	22,095	57,299	542
Change in estimated fair value of interest rate swap liability	(13,162)	(48,528)	78,440	28,707
Loss on extinguishment of debt	—	1,765	—	1,349,271
Income tax provision (benefit)	(210,132)	166,662	17,189	154,799
Depreciation and amortization	476,112	462,402	1,439,220	1,372,752
Share based compensation expense	242,016	192,998	678,199	550,588
Non-recurring rebranding expense	82,650	—	95,150	—
Non-recurring severance expense	185,000	—	185,000	—
Non-recurring special project cost	469,249	—	1,235,220	—
Interest income	(25,326)	(343)	(45,891)	(974)
Adjusted EBITDA	$ 2,217,299	$ 1,795,444	$ 6,654,222	$ 5,007,565

Liquidity and capital resources. 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 future 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 negatively affected. 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.

As of September 30, 2019, we had total current assets of $13,384,478 and total assets of $23,255,388. This compares to $10,206,844 and $21,193,725, respectively, as of December 31, 2018. The increase in current assets as of September 30, 2019 was primarily due to an increase in cash, cash equivalents and restricted cash, accounts receivable and inventory. Our total current liabilities as of September 30, 2019 increased to $5,116,395 from $4,990,615 as of December 31, 2018, primarily due to an increase in accounts payable.

Our business model continues to be profitable and we have sufficient working capital and other options to ensure we are able to meet our short-term and long-term obligations. At September 30, 2019 and at the filing date of this Quarterly Report on Form 10-Q we had $1.0 million available under the Revolving Loan. See Note 10 to our condensed financial statements included in Item 1 of this report.

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

Our operating activities provided $3,294,333 in cash for the nine months ended September 30, 2019, compared to $2,806,957 for the comparable prior period. The increase in operating cash flow was primarily due to an increase in net income in the 2019 period and a January 2018 license fee payment of $774,645.

Additionally, investing activities used cash of $59,895 for the nine months ended September 30, 2019, compared to $100,098 for the comparable prior period. In both periods, the investments were in intangible assets and acquisition of property and equipment.

Cash used in financing activities during the nine months ended September 30, 2019 was $935,414,which was due to principal payments on long-term debt and finance leases, partially offset by proceeds from stock option exercises. This compares to $1,066,324 for the comparable prior period.

Significant non-cash activities during the nine months ended September 30, 2019 include the $39,096,401 one-time redemption of Triangulum stock in exchange for the Triangulum Promissory Note. In addition, we recorded $305,163 in right-of-use assets in exchange for finance and operating lease liabilities as a result of the adoption of ASC 842 effective January 1, 2019. Furthermore, we transferred $157,202 and $147,434 from inventory to assets deployed at client locations for the nine months ended September 30, 2019 and 2018, respectively. These amounts represent the value of our enhanced table systems that were newly installed at our casino clients' premises during the periods presented but are not reflected as cash flows used in investing activities.

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 3 of our financial statements included in Item 8. "Financial Statements and Supplementary Data" of our 2018 10-Kfor further detail on these critical accounting policies.

Off-balance sheet arrangements. As of September 30, 2019, there were no off-balance sheet arrangements.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the 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.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2019 our disclosure controls and procedures were effective.

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

Limitations on the effectiveness of internal controls

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, *Contingencies*, 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 GAAP, applicable law, statute or regulation.

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

As consideration for the redemption, we issued a promissory note payable to Triangulum in the face amount of $39,096,401 (the "Triangulum Promissory Note"). The Triangulum Promissory Note has no mandatory amortization, matures on May 5, 2029, and bears interest at a rate of 2% per annum, with accrued interest payable annually in arrears. It is unsecured and is subordinated to our existing and future indebtedness in accordance with its terms. We may prepay principal and any accrued interest in full or in part at any time.

In relation to the redemption of the Triangulum shares, on May 6, 2019, we filed a lawsuit seeking (i) a declaratory judgment that we acted lawfully and in full compliance with the Articles when we redeemed the Triangulum shares and (ii) certain remedies for breach of fiduciary duty and breach of contract by Triangulum and its Managing Member, Mr. Saucier (the "Triangulum Lawsuit"). The suit alleges that the redemption and the other relief sought by us are appropriate and in accordance with the Articles of Incorporation (Galaxy Gaming, Inc. v. Triangulum Partners, LLC, Robert B. Saucier, Clark County, Nevada district court (Case No. A-19-794293-B)).

The defendants to that lawsuit responded to the complaint, and Triangulum filed counterclaims based on a theory of wrongful redemption by us. The defendants also filed a Motion for Preliminary Injunction seeking the redeemed shares be held in a constructive trust. On July 11, 2019, the Court denied the defendants' Motion for Preliminary Injunction and all related relief. On September 6, 2019, Defendants appealed the denial of the Motion for Preliminary Injunction to the Nevada Supreme Court. We will oppose the appeal, but a briefing schedule has not yet been set by the Supreme Court. Separately, Triangulum filed amended counterclaims, which we moved to dismiss on a number of legal grounds. The Court denied the motion, stating that the amended complaint was sufficiently plead. We will file a Petition for a Writ of Mandamus challenging the ruling.

On October 18, 2019, Saucier also filed counterclaims centered similarly on a theory of wrongful redemption, and claims that for breach of contract and quantum meruit, alleging Galaxy Gaming was obligated to pay Saucier his year-end bonuses, despite his resignation. We will file a timely response, disputing these claims.

On May 31, 2019 and June 6, 2019 respectively, Derek Webb and Hannah O'Donnell together filed a complaint and a related Motion for Order Granting Request to Compel an Annual Meeting, or in the Alternative for a Writ of Mandamus and Injunctive Relief (the "Motion"). The Motion sought the Court to compel us to hold an Annual Shareholder's Meeting in 2019 and also sought related relief: that we not issue shares or redeem any shares or amend its Bylaws in any manner that could affect the obligation to hold the meeting or elect directors at the meeting. On June 6, 2019, we notified the public of the holding of an Annual Meeting to take place on August 28, 2019 for shareholders of record of July 17, 2019. During a hearing held on July 11, 2019, the Court denied Webb and O'Donnell's Motion and all related relief. The Annual Meeting took place on August 28, 2019. On October 17, 2019 the Court dismissed the case as a result of a stipulation of the parties.

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

On September 30, 2019, we issued an aggregate of 82,600 restricted shares of our common stock valued at $152,067 to Messrs. Lipparelli, DesRosiers, Isaacs, Waters, and Zender, in consideration of their service on the Board during the three months ended September 30, 2019. These shares vested immediately on the grant date. In each of the transactions listed above, the securities were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, (the "Securities Act") and rules and regulations promulgated thereunder.

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

ITEM 6. EXHIBITS

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.1	Third Amendment to Credit Agreement dated August 16, 2019 with Zions Bancorporation, N.A. dba Nevada State Bank	8-K	000-30653	10.2	August 28, 2019	
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
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					X
101	Financials in XBRL format					X

SIGNATURES

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

Galaxy Gaming, Inc.

Date: November 14, 2019

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

Galaxy Gaming, Inc.

Date: November 14, 2019

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

Exhibit 31.1

CERTIFICATIONS

I, Todd P. Cravens, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2019 of Galaxy Gaming, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ TODD P. CRAVENS

By: Todd P. Cravens
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Harry C. Hagerty, certify that;

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2019 of Galaxy Gaming, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

/s/ HARRY C. HAGERTY
By: Harry C. Hagerty
Title: Chief Financial Officer

Exhibit 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

In connection with the quarterly Report of Galaxy Gaming, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 filed with the Securities and Exchange Commission (the "Report"), I, Todd P. Cravens, Chief Executive Officer of the Company, and I, Harry C. Hagerty, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

By:	/s/ TODD P. CRAVENS
Name:	Todd P. Cravens
Title:	Principal Executive Officer and Director
Date:	November 14, 2019

By:	/s/ HARRY C. HAGERTY
Name:	Harry C. Hagerty
Title:	Principal Financial Officer and Director
Date:	November 14, 2019

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