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, 2020

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: 18,281,277 common shares as of June 23, 2020.

GALAXY GAMING, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2020
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PART I

ITEM 1. FINANCIAL STATEMENTS

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

GALAXY GAMING, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

ASSETS	March 31, 2020	December 31, 2019
Current assets:	(Unaudited)	
Cash, cash equivalents and restricted cash	$ 11,051,143	$ 9,686,698
Accounts receivable, net of allowance of $122,354 and $77,433, respectively	2,564,271	3,099,586
Inventory, net	726,483	665,654
Income tax receivable	224,385	260,347
Prepaid expense and other current assets	958,216	761,650
Total current assets	15,524,498	14,473,935
Property and equipment, net	123,363	144,909
Operating lease right-of-use assets	237,559	37,689
Assets deployed at client locations, net	367,266	405,522
Goodwill	1,091,000	1,091,000
Other intangible assets, net	7,048,144	7,430,643
Deferred tax assets, net	399,283	399,283
Total assets	$ 24,791,113	$ 23,982,981
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 775,088	$ 766,305
Accrued expenses	1,085,368	1,450,879
Revenue contract liability	1,298,451	1,294,265
Current portion of long-term debt	1,599,103	1,634,527
Current portion of operating lease liabilities	214,012	19,140
Total current liabilities	4,972,022	5,165,116
Long-term operating lease liabilities	23,972	18,978
Long-term debt, net	46,929,382	46,291,014
Interest rate swap liability	216,658	140,495
Total liabilities	52,142,034	51,615,603
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; 18,106,277 and 18,017,944 shares issued and outstanding, respectively	18,106	18,018
Additional paid-in capital	5,960,644	5,795,636
Accumulated deficit	(33,329,671)	(33,446,276)
Total stockholders' deficit	(27,350,921)	(27,632,622)
Total liabilities and stockholders' deficit	$ 24,791,113	$ 23,982,981

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

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

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
Revenue:		
Product leases, royalties and other	$ 4,494,318	$ 5,346,751
Total revenue	4,494,318	5,346,751
Costs and expenses:		
Cost of ancillary products and assembled components	21,812	82,391
Selling, general and administrative	2,992,052	3,540,870
Research and development	155,653	299,180
Depreciation and amortization	469,805	482,064
Share-based compensation	157,596	223,604
Total costs and expenses	3,796,918	4,628,109
Income from operations	697,400	718,642
Other income (expense):		
Interest income	21,774	715
Interest expense	(363,153)	(168,013)
Foreign currency exchange (loss) gain	(127,291)	36,476
Change in estimated fair value of interest rate swap liability	(76,163)	(26,142)
Total other expense	(544,833)	(156,964)
Income before provision for income taxes	152,567	561,678
Provision for income taxes	(35,962)	(101,014)
Net income	$ 116,605	$ 460,664
Net income per share:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01
Weighted-average shares outstanding:		
Basic	18,022,761	40,370,338
Diluted	19,239,294	42,242,557

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, 2019	18,017,944	$ 18,018	$ 5,795,636	$ (33,446,276)	$ (27,632,622)
Net income	—	—	—	116,605	116,605
Stock options exercised	25,000	25	7,475	—	7,500
Share-based compensation	63,333	63	157,533	—	157,596
Balance, March 31, 2020	18,106,277	$ 18,106	$ 5,960,644	$ (33,329,671)	$ (27,350,921)

	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
Net income	—	—	—	460,664	460,664
Stock options exercised	98,332	98	36,134	—	36,232
Share based compensation expense	470,200	470	223,134	—	223,604
Balance, March 31, 2019	40,490,123	$ 40,490	$ 4,992,969	$ 3,144,142	$ 8,177,601

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, 2020	March 31, 2019
Cash flows from operating activities:		
Net income	$ 116,605	$ 460,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	469,805	473,493
Amortization of lease right-of-use assets	69,301	69,711
Amortization of debt issuance costs and debt discount	9,159	9,776
Bad debt expense	166,002	31,762
Change in estimated fair value of interest rate swap liability	76,163	26,142
Share-based compensation	157,596	223,604
Unrealized foreign exchange loss (gain) on cash, cash equivalents and restricted cash	77,557	(29,296)
Changes in operating assets and liabilities:		
Accounts receivable	369,313	(158,003)
Inventory	(86,885)	(148,120)
Income tax receivable	35,962	101,014
Prepaid expenses and other current assets	(197,283)	(32,274)
Accounts payable	8,784	385,259
Accrued expenses	(365,512)	(656,817)
Revenue contract liability	4,186	(82,656)
Operating lease liabilities	(69,305)	(65,376)
Other current liabilities	—	(7,455)
Net cash provided by operating activities	841,448	601,428
Cash flows from investing activities:		
Investment in intangible assets	—	(12,250)
Acquisition of property and equipment	(1,448)	(6,940)
Net cash used in investing activities	(1,448)	(19,190)
Cash flows from financing activities:		
Proceeds from draw on revolving loan	1,000,000	—
Proceeds from stock option exercises	7,500	36,232
Principal payments on finance lease obligations	—	(8,481)
Principal payments on long-term debt	(405,498)	(356,623)
Net cash provided by (used in) financing activities	602,002	(328,872)
Effect of exchange rate changes on cash	(77,557)	29,296
Net increase in cash, cash equivalents and restricted cash	1,364,445	282,662
Cash, cash equivalents and restricted cash – beginning of period	9,686,698	6,311,563
Cash, cash equivalents and restricted cash – end of period	$ 11,051,143	$ 6,594,225
Supplemental cash flow information:		
Cash paid for interest	$ 152,949	$ 160,557
Supplemental schedule of non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	$ 269,171	$ 293,350
Inventory transferred to assets deployed at client locations	$ 26,056	$ 58,016

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 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.

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

On February 25, 2020, Galaxy Gaming entered into a Membership Interest Purchase Agreement, dated February 25, 2020 (the "Purchase Agreement"), between the Company and the membership interest holders of Progressive Games Partners LLC ("PGP"). Pursuant to the Purchase Agreement, the Company will pay $12.425 million to acquire all of the issued equity interest of PGP. Of the consideration, at least $6.425 million, but no more than $10.425 million will be paid in cash, with the balance of the consideration being paid in newly issued shares of the Company's common stock valued at $1.91 per share. Completion of the purchase is subject to various customary closing conditions, including but not limited to (i) further due diligence by Galaxy, (ii) any necessary gaming approvals having been obtained from the relevant gaming authorities, (iii) no material adverse effect or other specified adverse events occurring with respect to Galaxy or PGP, (iv) subject to certain exceptions, the accuracy of the representations and warranties of the parties, and (v) performance and compliance in all material respects with agreements and covenants contained in the Purchase Agreement.

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

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

As of the date of this filing, many land-based casinos have begun to re-open with significantly reduced occupancy and other limitations. As they reopen, it will take additional time for their operations to return to pre-crisis levels. Given the uncertainties around casino re-openings, we instituted a phased billing approach for our clients through fiscal year 2020, which will result in us realizing substantially less revenue than we might otherwise expect. In addition, because of COVID-19-related financial pressures on our physical casino customers, there can be no assurance that our accounts receivable we will be paid timely (or at all) for revenues earned prior to the shutdowns. Finally, some of our casino clients have notified vendors (including us) that they will lengthen payment terms for a period of time after reopening as they attempt to preserve their own liquidity.

We rely on third-party suppliers and manufacturers in China, many of whom were shut down or severely cut back production during the shutdown. This did not have a material effect on our supply chain. However, any future disruption of our suppliers and their contract manufacturers may impact our sales and operating results going forward.

Because of the uncertainties of COVID-19, the Company drew on its Revolving Loan in the amount of $1,000,000 on March 12, 2020. As of thedate of this filing, the Company believes that it has adequate liquidity to meet its near-term obligations. Further, we do not currently believe that the recent casino closures will result in an impairment of our assets or a default under our loan agreements. If the effects of the COVID-19 crisis endure or there is a second period of casino closures, we may be required to reassess our obligations, including our ability to pay employee compensation and benefits.

The COVID-19 crisis may change the behavior of gaming patrons.Most of our clients operate places of public accommodation, and their patrons may reduce visitation and play as a precaution. Further, governmental authorities may continue to impose reduced hours of operation or limit the capacity of such places of public accommodation. A long-term reduction in play could have a material adverse impact on our results of operations. Depending on the length and severity of any such adverse impact, we may fail to comply with our obligations, including covenants in our credit agreement, and we may need to reassess the carrying value of our assets.

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, 2019, filed with the SEC on March 30, 2020 (the "2019 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.

Impairment considerations. We concluded that the impact of the current COVID-19 pandemic on operations and financial results is an indicator that impairment may exist related to the Company's inventory (Note 4), property and equipment (Note 5), assets deployed at client locations (Note 6) and intangible assets (Note 7). Accordingly, management conducted an assessment of the values of these assets. As a result of its impairment assessments, management has determined that its assets are not currently impaired.

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. See Note 2 in Item 8. "Financial Statements and Supplementary Financial Information" included in our 2019 10-K.

Recently adopted accounting standards

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. We have adopted the new standard effective January 1, 2020, which did not have a material effect on our financial statements or related disclosures.

New accounting standards not yet adopted

Financial Instruments – Credit Losses. In February 2020, the FASB issued ASU No. 2020-02, *Financial Instruments – Credit Losses (Topic 326).* ASU 2020-02 provides updated guidance on how an entity should measure credit losses on financial instruments and delayed the effective date of Topic 326 for certain small public companies and other private companies until fiscal years beginning after December 5, 2022. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our financial statements or related disclosures.

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. 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 March 31,	
	2020	**2019**
North America and Caribbean	$ 3,130,465	$ 3,844,525
Europe, Middle East and Africa	1,363,853	1,502,226
Total revenue	$ 4,494,318	$ 5,346,751

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 three months ended March 31, 2020:

Beginning balance – January 1, 2020	$ 1,294,265
Increase (advanced billings)	3,817,076
Decrease (revenue recognition)	(3,812,890)
Ending balance – March 31, 2020	$ 1,298,451

Revenue recognized during the three months ended March 31, 2020 that was included in the beginning balance of revenue contract liability above was $1,279,682.

NOTE 4. INVENTORY

Inventory, net consisted of the following at:

	March 31, 2020	December 31, 2019
Raw materials and component parts	$ 394,479	$ 359,349
Finished goods	371,793	343,305
Inventory, gross	766,272	702,654
Less: inventory reserve	(39,789)	(37,000)
Inventory, net	$ 726,483	$ 665,654

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following at:

	March 31, 2020	December 31, 2019
Furniture and fixtures	$ 312,639	$ 312,639
Automotive vehicles	215,127	215,127
Office and computer equipment	303,744	302,296
Leasehold improvements	6,843	6,843
Property and equipment, gross	838,353	836,905
Less: accumulated depreciation	(714,990)	(691,996)
Property and equipment, net	$ 123,363	$ 144,909

For the three months ended March 31, 2020 and 2019, depreciation expense related to property and equipment was $22,994 and $27,140, respectively.

NOTE 6. ASSETS DEPLOYED AT CLIENT LOCATIONS

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

	March 31, 2020	December 31, 2019
Enhanced table systems	$ 1,009,427	$ 993,127
Less: accumulated depreciation	(642,161)	(587,605)
Assets deployed at client locations, net	$ 367,266	$ 405,522

For the three months ended March 31, 2020 and 2019, depreciation expense related to assets deployed at client locations was $64,312 and $69,137, 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:

	March 31, 2020	December 31, 2019
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	183,415	183,415
Other intangible assets, gross	20,609,382	20,609,382
Less: accumulated amortization	(13,561,238)	(13,178,739)
Other intangible assets, net	$ 7,048,144	$ 7,430,643

For the three months ended March 31, 2020 and 2019, amortization expense related to the other intangible assets was $382,499 and $377,216, respectively.

Estimated future amortization expense is as follows:

Twelve Months Ending March 31,	Total
2021	$ 1,457,258
2022	1,415,500
2023	829,535
2024	252,930
2025	252,930
Thereafter	2,839,991
Total amortization	$ 7,048,144

NOTE 8. ACCRUED EXPENSES

Accrued expenses consisted of the following at:

	March 31, 2020	December 31, 2019
Payroll and related	$ 209,831	$ 747,458
Interest	721,716	520,671
Commissions and royalties	35,186	78,528
Income tax payable	64,832	64,832
Other	53,803	39,390
Total accrued expenses	$ 1,085,368	$ 1,450,879

NOTE 9. LEASES

Lessee

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

On December 31, 2019, we executed a second amendment to the corporate office lease to amend the lease expiration date from December 31, 2019 to December 31, 2020, with monthly base rents of $21,123 from January 1, 2020 to December 31, 2020. As a result of the amendment, we recorded a $246,998 increase to operating lease right-of-use assets and operating lease liabilities.

On September 24, 2019, we executed a third amendment to one of our satellite facilities to amend the lease expiration date fromDecember 31, 2019 to December 31, 2021, with monthly base rents of $975.00 from January 1, 2020 to December 31, 2021. As a result of the amendment, we recorded a $22,173 increase to operating lease right-of-use assets and operating lease liabilities.

As of March 31, 2020, our leases have remaining lease terms ranging from two months to 27 months. Gross right-of-use assets recorded under operating leases was $560,047, respectively, and the related accumulated amortization was $322,488.

Supplemental balance sheet information related to leases is as follows:

	As of March 31, 2020	
	Amount	Classification
Operating leases:		
Operating lease right-of-use lease assets	$ 237,559	
Operating lease current liabilities	$ 214,012	Current portion of operating lease liabilities
Operating lease long-term liabilities	23,972	Long-term operating lease liabilities
Total operating lease liabilities	$ 237,984	
Weighted-average remaining lease term:		
Operating leases	1 year	
Weighted-average discount rate:		
Operating leases	5.7%	

The components of lease expense are as follows:

	Three Months Ended March 31, 2020	
	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	$ 71,712	Selling, general and administrative expense

Supplemental cash flow information related to leases is as follows:

	Three Months Ended March 31, 2020	
	Amount	Classification
Cash paid for amounts included in the measure of lease liabilities:		
Operating cash flows from finance leases	—	Net income
Financing cash flows from finance leases	—	Principal payments on finance lease obligations
Operating cash flows from operating leases	$ 71,712	Net income
Right-of-use assets obtained in exchange for lease liabilities:		
Finance leases	—	Supplemental cash flow information
Operating leases	$ 560,047	Supplemental cash flow information

As of March 31, 2020, future maturities of our operating lease liabilities are as follows:

Twelve Months Ending March 31,	Amount
2021	$ 214,013
2022	21,584
2023	2,387
Total lease liabilities	$ 237,984

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.

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:

	March 31, 2020	December 31, 2019
Nevada State Bank credit agreement	$ 9,358,799	$ 8,699,900
Triangulum promissory note	39,096,401	39,096,401
Vehicle notes payable	39,021	44,490
Insurance notes payable	118,966	177,894
Long-term debt, gross	48,613,187	48,018,685
Less: Unamortized debt issuance costs	(84,702)	(93,144)
Long-term debt, net	48,528,485	47,925,541
Less: Current portion	(1,599,103)	(1,634,527)
Long-term debt, long-term portion	$ 46,929,382	$ 46,291,014

Nevada State Bank ("NSB") Credit Agreement. The Company entered into a Credit Agreement with ZB, N.A. dba Nevada State Bank (as amended, the "Credit Agreement"), which was last amended on October 14, 2019. The Credit Agreement provided for a Term Loan in the initial amount of $11,000,000 and a Revolving Loan in the amount of $1,000,000.

Under the Credit Agreement, outstanding balances 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 Total Leverage Ratio (as defined in the amended Credit Agreement). Effective December 31, 2021, LIBOR will no longer serve as a reference rate for bank loans, among other investment classes. The Fourth Amendment to the Credit Agreement stipulates that an alternative reference rate will be selected and used in lieu of LIBOR.

On March 17, 2020, the Company drew down $1,000,000 on the Revolving Loan component of the Credit Agreement. At March 31, 2020, the principal amount outstanding under the Term Loan component of the Credit Agreement was $8,358,799, bringing the total amount outstanding under the Credit Agreement at March 31, 2020, to $9,358,799.

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, is scheduled to mature on May 5, 2029, and bears interest at 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 March 31, 2020, future maturities of our long-term debt obligations are as follows:

Twelve Months Ending March 31,	Total
2021	$ 1,599,103
2022	2,574,483
2023	1,664,400
2024	3,678,800
2025	—
Thereafter	39,096,401
Long-term debt, gross	48,613,187
Less:	
Unamortized debt issuance costs	(84,702)
Long-term debt, net	$ 48,528,485

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 three months ended March 31, 2020 and 2019, respectively, we had the following client revenue concentration:

	Location	2020 Revenue	2019 Revenue	Accounts Receivable March 31, 2020	Accounts Receivable December 31, 2019
Client A	Europe	12.4%	11.6%	$ 296,410	$ 176,237

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

NOTE 12. STOCKHOLDERS' EQUITY (DEFICIT)

During the three months ended March 31, 2020, we issued an aggregate of 63,333 restricted shares of our common stock valued at $54,086, to our board members in consideration of their service on the Board. These shares vested immediately on the grant date.

NOTE 13. INCOME TAXES

Our forecasted annual effective tax rate ("AETR") at March 31, 2020 was 23.6%, as compared to 22.7% at March 31, 2019. The slight increase was primarily due to changes in permanent book-to-tax differences for the three months ended March 31, 2020.

For the three months ended March 31, 2020 and 2019, our ETR was 23.6% and 18.0%, respectively. The increase in the effective tax rate for the three months ending March 31, 2020 is a result of favorable discrete items from the comparable prior-year period that are not recurring in the current period.

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 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 March 31, 2020, a total of 6,550,750 shares of our common stock were authorized for issuance. As of March 31, 2020, 606,701 shares remained available for issuance as new awards under the 2014 Plan.

Stock options. During the three months ended March 31, 2020 and 2019, we issued 225,000 and 150,000 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 three months ended March 31, 2020 and 2019 was determined to be $255,017 and $171,985, respectively, using the Black-Scholes option pricing model with the following assumptions:

	Options Issued 2020	Options Issued 2019
Dividend yield	0 %	0 %
Expected volatility	70.98 %	72.00 %
Risk free interest rate	1.39 %	2.51 %
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 ("Mr. Cravens"). 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 19, 2019).

On February 17, 2020, we entered into Amendment No. #2 to the employment agreement with Mr. Cravens. Among other things, Amendment No. #2 provides that Mr. Cravens receive a grant of 225,000 options at a strike price of $1.93 and vest as follows: 88,000 shares on July 26, 2021, 87,000 shares on July 26, 2022 and 50,000 shares on July 26, 2023.

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, 2019	3,175,000	$ 0.92	$ 2,692,025	2.79
Issued	225,000	1.93	—	—
Exercised	(25,000)	0.30	—	—
Forfeited	—	—	—	—
Outstanding – March 31, 2020	3,375,000	$ 0.99	$ (469,850)	2.71
Exercisable – March 31, 2020	2,096,667	$ 0.67	$ 379,217	2.00

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, 2019	1,053,333	$ 1.43	$ 357,734	3.92
Granted	225,000	1.93	—	—
Vested	—	—	—	—
Forfeited	—	—	—	—
Unvested – March 31, 2020	1,278,333	$ 1.51	$ (849,066)	3.88

As of March 31, 2020, our unrecognized share-based compensation expense associated with the stock options issued was $797,761, which will be amortized over a weighted-average of 2.41 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 March 31, 2020, 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 March 31, 2020 except as disclosed in Note 1 and as follows:

On April 17, 2020, the Company obtained an unsecured loan of $835,300 through Zions Bancorporation, N.A. dba Nevada State Bank under the Paycheck Protection Program (the "PPP Loan") pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the United States Small Business Administration. In accordance with the requirements of the CARES Act, the Company will use proceeds from the PPP Loan primarily for payroll costs. Under the terms of the CARES Act, PPP Loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payroll costs and mortgage interest, rent and utility costs. No assurance is provided that the Company will apply for and obtain forgiveness of the PPP Loan in whole or in part.

On April 23, 2020, the Company filed a Registration Statement on Form S-8 (the "Registration Statement"). The Registration Statement was filed relating to 6,550,750 shares of its common stock, par value $0.001 per shares, to be issued pursuant to the Company's 2014 Equity Incentive Plan.

On May 13, 2020, the Company filed a Form 8-K relating to extending its filing deadline for its first quarter ended March 31, 2020. In light of the circumstances and uncertainty surrounding the effects of the Coronavirus (COVID-19) pandemic on the business, employees, consultants and service providers of Galaxy, the Company's Board of Directors and management determined that it would delay the filing of its report on Form 10-Q for the first quarter ended March 31, 2020, relying on an order issued by the Securities and Exchange Commission on March 25, 2020 (which extended and superseded a prior order issued on March 4, 2020) pursuant to Section 36 of the Securities Exchange Act of 1934, as amended (Release No. 34-88318), regarding exemptions granted to certain public companies.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources as of and for the three months ended March 31, 2020 and 2019. This discussion should be read together with our audited consolidated financial statements and related notes included in Item 8. Financial Statements and Supplementary Data. Some of the information contained in this discussion includes forward-looking statements that involve risks and uncertainties; therefore our "Special Note Regarding Forward-Looking Statements" should be reviewed for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, such forward-looking statements.

OVERVIEW

We develop, acquire, assemble and market technology and entertainment-based products and services for the gaming industry for placement on 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.

Results of operations for the three months ended March 31, 2020 and 2019. For the three months ended March 31, 2020, we generated total revenues of $4,494,318 compared to $5,346,751 for the comparable prior-year period, representing a decrease of $852,433, or 15.9%. This decrease was primarily attributable to the closing of a majority of our land-based casino customers in mid-March of 2020 due to the COVID-19 virus

Selling, general and administrative expenses for the three months ended March 31, 2020 were $2,989,552 compared to $3,540,870 for thecomparable prior-year period, representing a decrease of $551,318, or 15.6%. This decrease was primarily due to a decrease in expenses that are driven by revenue, such as bonuses, commissions, distributor fees and royalties.

Research and development expenses for the three months ended March 31, 2020 were $155,653, compared to $299,180 for the comparable prior-year period, representing a decrease of $143,527, or 48.0%. This decrease was primarily due to a reduction in headcount and other compensation-related expenses.

Share-based compensation expenses for the three months ended March 31, 2020 was $157,596, as compared to $223,604 for the comparable prior-year period, representing a decrease of $66,008, or 29.5%. This decrease was mainly due to final vesting of a three-year grant that occurred in the first quarter of 2019 that did not recur in the first quarter of 2020.

As a result of the changes described above, income from operations decreased $18,742 or 2.6% to $699,900 for the three months ended March 31, 2020, compared to $718,642 for the comparable prior-year period.

Total interest expense increased $195,140, or 116.1%, to $363,153 for the three months ended March 31, 2020, compared to $168,013 for the comparable prior-year period. The increase was mainly attributable to interest accrued on the Triangulum Promissory Note.

Income tax expense was $35,962 for the three months ended March 31, 2020, compared to income tax provision of $101,014 for the comparable prior-year period. The decrease in income tax expense was primarily attributable to the decrease in pre-tax book income from $561,677 in the comparable prior-year period to $152,567 in the current period.

Adjusted EBITDA (as defined below) was $1,500,572 for the three months ended March 31, 2020, compared to $2,019,865 for the comparable prior-year period, representing a decrease of $519,293, or 25.7%. This decrease was primarily attributable to lower net income as a result of the COVID-19 crisis and lower adjustments in share-based compensation and special project expense, partially offset by larger adjustments related to interest expense.

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 ca sh 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 March 31,	
Adjusted EBITDA Reconciliation:	**2020**	**2019**
Net income	$ 116,605	$ 460,664
Interest expense	363,153	168,013
Interest income	(21,774)	(715)
Depreciation and amortization	469,805	482,064
Share-based compensation	157,596	223,604
Foreign currency exchange (gain) loss	127,291	(36,476)
Change in estimated fair value of interest rate swap liability	76,163	26,142
Income tax provision	35,962	101,014
Non-recurring severance expense	2,500	—
Non-recurring special project expense(1)	173,271	595,555
Adjusted EBITDA	$ 1,500,572	$ 2,019,865

(1) 2020 includes expenses associated with the Triangulum Lawsuit. 2019 includes expenses associated with our strategic review, the Triangulum Lawsuit and the related contested proxy campaign.

Liquidity and capital resources. We have generally been able to fund our continuing operations, our investments, and the obligations under our existing borrowings through cash flow from operations. However, the COVID-19 crisis will cause us to have negative cash from operations in Q2 and potentially longer in 2020. In addition, we will have a significant use of cash associated with the closing of the PGP Purchase Agreement (see Note 1). 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 March 31, 2020, we had total current assets of $15,524,498 and total assets of $24,791,113. This compares to $14,473,935 and $23,982,981, respectively, as of December 31, 2019. The increase in current assets as of March 31, 2020 was primarily due to an increase in cash, cash equivalents and restricted cash. Our total current liabilities as of March 31, 2020 increased to $5,972,022 from $5,165,116 as of December 31, 2019, primarily due to an increase in current portion of long-term debt related to the Company drawing down on its $1,000,000 Revolving Loan on March 17, 2020.

Our business was profitable in Q1, but we expect losses in Q2 and potentially longer in 2020. We have sufficient working capital to meet our short-term obligations but may require additional sources of cash to meet longer-term obligations.

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

Our operating activities provided $841,448 in cash for the three months ended March 31, 2020, compared to $601,428 for the comparable prior period. The increase in operating cash flow was primarily due to a decrease in accounts receivable.

Investing activities used cash of $1,448 for the three months ended March 31, 2020, compared to $19,190 for the comparable prior period. In both periods, the investments were in intangible assets and acquisition of property and equipment.

Cash provided in financing activities during the three months ended March 31, 2020 was $602,002, which resulted from the $1,000,000 draw on our Revolving Loan, offset by principal payments on long-term debt. This compares to $328,872 cash used in financing activities for the comparable prior period.

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 2019 10-K for further detail on these critical accounting policies.

Off-balance sheet arrangements. As of March 31, 2020, 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 March 31, 2020 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"). See Note 10. 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. We timely made the first payment under the Triangulum Promissory Note on May 6, 2020.

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)). We are in the discovery phase of the Triangulum Lawsuit.

The defendants to that lawsuit responded to the complaint, and Triangulum filed counterclaims based on a theory of wrongful redemption by us. Triangulum also filed a Motion for Preliminary Injunction seeking the redeemed shares be held in a constructive trust. On July 11, 2019, the Court denied Triangulum's Motion for Preliminary Injunction and all related relief. On September 6, 2019, Triangulum appealed the denial of the Motion for Preliminary Injunction to the Nevada Supreme Court. We submitted our brief in opposition and Triangulum's reply brief is due on June 17, 2020. 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 filed a Petition for a Writ of Mandamus challenging the ruling, which the Supreme Court denied on January 23, 2020.

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 filed an answer disputing these claims.

As a result of the effects of Coronavirus on the Nevada District court, the Court issued a revised Scheduling Order extending time frames for discovery and setting a new trial date in February of 2021.

On May 6, 2020, Saucier made a demand of the Company under our Bylaws and an Indemnity Agreement between Saucier and the Company, for indemnity and advancement of funds seeking repayment of his lawyer's fees and expenses he allegedly incurred in connection with the Company's claims against him in the Triangulum Lawsuit. Saucier asserts that he is entitled to indemnity and advancement as a result of his tenure as an officer, director, and fiduciary of the Company, which he claims triggers his rights of indemnity and advancement. The Company rejected his demand. Thereafter, on May 19, 2020, Saucier commenced a separate action, filed a verified complaint seeking advancement and filed a pleading styled "Motion For Declaratory Judgement On Verified Complaint For Advancement" (Robert B. Saucier v. Galaxy Gaming, Inc. (Clark County, Nevada district court (Case No. A-20-81590-B)) ("the Motion For Declaratory Judgement"). The Company filed its opposition on June 4, 2020. Saucier's Motion For Declaratory Judgement was denied in a hearing that occurred on June 24, 2020.

As has been previously reported by the Company, in September 2018, we were served with a complaint by TableMax ("TMAX") regarding the TMAX Agreement. We filed an answer denying the allegations and counterclaiming for breach of contract, abuse of process and fraud in the inducement, among other counterclaims. We also filed a partial motion for summary judgment seeking dismissal of the plaintiff's claims. Pursuant to a motion to dismiss brought by the co-defendant and former CEO of TMAX, the suit was dismissed, subject to the right of the plaintiff to file an amended complaint on or before March 20, 2019.

The plaintiff did not file an amended complaint within the time period set by the Judge. After that time, the Company considered the matter closed. Despite not filing an Amended complaint within the allotted time, thereafter TMAX filed a Motion for Leave to Amend their Complaint, which was granted by the Judge on May 11, 2020. On May 26, 2020 TMAX filed an Amended Complaint against the Company and other Co-Defendants. In the Amended Complaint, TMAX asserted a claim against the Company for conversion of personal property. The Company will respond to the Amended Complaint denying the allegations.

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

On March 31, 2020, we issued an aggregate of 63,333 restricted shares of our common stock valued at $54,086 to Messrs. Lipparelli, DesRosiers, Isaacs, Waters, and Zender, in consideration of their service on the Board during the three months ended March 31, 2020. 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 stock was based in part upon the following factors: (a) each of the issuances of the securities was in connection with an isolated private transaction which did not involve any public offering; (b) there were a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; and (d) the negotiations for the issuance of the securities took place directly between the offeree and us.

ITEM 6. EXHIBITS

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Bylaws	8-K	000-30653	3.2	February 14, 2020	
10.1	Amendment #2 to the Employment Agreement dated July 27, 2017 between the Company and Todd P. Cravens	8-K	000-30653	10.1	February 19, 2020	
10.2	Entry into Material Definitive Agreement	8-K	000-30653	10.2	February 26, 2020	
10.3	Paycheck Protection Program Loan Agreement pursuant to the Coronavirus Aid, Relief and Economic Security Act	8-K	000-30653		April 17, 2020	
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: June 29, 2020

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

Galaxy Gaming, Inc.

Date: June 29, 2020

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 March 31, 2020 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: June 29, 2020

/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 March 31, 2020 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: June 29, 2020

/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 March 31, 2020 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:	June 29, 2020
By:	/s/ HARRY C. HAGERTY
Name:	Harry C. Hagerty
Title:	Principal Financial Officer and Director
Date:	June 29, 2020

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