

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## GALAXY NEXT GENERATION, INC.

**Form: 10-Q**

**Date Filed: 2019-02-14**

Corporate Issuer CIK: 1127993

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended December 31, 2018

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: 333-51918

### GALAXY NEXT GENERATION, INC.

(Exact Name of Registrant as Specified in Its Charter)

<u>Nevada</u> (State of Incorporation)	<u>62-1363026</u> (IRS Employer Identification No.)
<u>286 Big A Road Toccoa, Georgia</u> (Address of Principal Executive Offices)	<u>30577</u> (Zip Code)

(706) 391-5030

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]  
Non-accelerated filer [ ] Smaller reporting company [ x ]

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common shares as of January 1, 2019 was 9,888,068.

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#### FORM 10-Q

#### GALAXY NEXT GENERATION, INC.

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**PART I – FINANCIAL INFORMATION**

**Item 1 - Consolidated Financial Statements**

The following unaudited consolidated financial statements are included herein:

Consolidated balance sheets as of December 31, 2018 (unaudited) and June 30, 2018 (audited)	3
Consolidated statements of operations for the three-month and six month periods ended December 31, 2018 and 2017 (unaudited)	4
Consolidated statements of stockholders' equity (deficit) for the six-month period ended December 31, 2018 (unaudited)	5
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**GALAXY NEXT GENERATION, INC.  
Consolidated Balance Sheets**

<b>Assets</b>	<b>December 31, 2018 (Unaudited)</b>	<b>June 30, 2018 (Audited)</b>
<b>Current Assets</b>		
Cash	\$ 186,667	\$ 184,255
Accounts receivable	47,181	341,726
Inventories	373,613	586,764
Prepaid and other current assets	2,962	2,764
Total Current Assets	610,423	1,115,509
<b>Property and Equipment, net</b> (Note 2)	4,076,029	4,254,451
<b>Other Assets</b>		
Goodwill (Note 11)	834,220	892,312
Other assets (Note 11)	1,522,714	1,522,714
Total Other Assets	2,356,934	2,415,026
Total Assets	<u>\$ 7,043,386</u>	<u>\$ 7,784,986</u>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Line of credit (Note 3)	\$ 1,011,275	\$ 547,603
Convertible note payable, net of discount (Note 4)	364,444	-
Current portion of long term notes payable	282,728	362,181
Accounts payable	521,367	771,080
Accrued expenses	170,921	146,978
Advances from stockholders (Note 5)	149,000	260,173
Deferred revenue	-	219,820
Short term notes payable (Note 4)	145,000	165,000
Short-term notes payable – related party (Note 5)	530,534	485,534
Total Current Liabilities	3,175,269	2,958,369
<b>Noncurrent Liabilities</b>		
Notes payable, less current portion (Note 4)	4,577,238	4,524,347
Total Liabilities	7,752,507	7,482,716
<b>Stockholders' Equity (Deficit)</b> (Notes 1, 7, and 11)		
Common stock	973	965
Additional paid-in capital	3,983,724	3,108,873
Accumulated deficit	(4,693,818)	(2,807,568)
Total Stockholders' Equity (Deficit)	(709,121)	302,270
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 7,043,386</u>	<u>\$ 7,784,986</u>

See accompanying notes to the consolidated financial statements (unaudited).

**Consolidated Statements of Operations**  
**(Unaudited)**

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended December 31,</b>		<b>Ended December 31,</b>	
	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>Revenues</b>				
Technology interactive panels and related products	\$ 348,358	\$ 1,597,296	\$ 844,828	\$ 1,844,008
Entertainment theater ticket sales and concessions	294,289	-	511,044	-
Technology office supplies	6,564	-	12,758	-
<b>Total Revenues</b>	<b>649,211</b>	<b>1,597,296</b>	<b>1,368,630</b>	<b>1,844,008</b>
<b>Cost of Sales</b>				
Technology interactive panels and related products	309,889	1,339,505	717,240	1,531,358
Entertainment theater ticket sales and concessions	91,765	-	163,323	-
<b>Total Cost of Sales</b>	<b>401,654</b>	<b>1,339,505</b>	<b>880,563</b>	<b>1,531,358</b>
Gross Profit	247,557	257,791	488,067	312,650
<b>General and Administrative Expenses</b>				
General and administrative	1,502,176	760,852	2,365,770	995,872
<b>Loss from Operations</b>	<b>(1,254,619)</b>	<b>(503,061)</b>	<b>(1,877,703)</b>	<b>(683,222)</b>
<b>Other Income (Expense)</b>				
Other income	13,374	627	53,818	879
Interest expense	(13,552)	(14,230)	(62,365)	(15,031)
Total Other Income (Expense)	(178)	(13,603)	(8,547)	(14,152)
<b>Net loss before income taxes</b>	<b>(1,254,797)</b>	<b>(516,664)</b>	<b>(1,886,250)</b>	<b>(697,374)</b>
Income taxes (Note 8)	-	-	-	-
<b>Net Loss</b>	<b>\$(1,254,797)</b>	<b>\$ (516,664)</b>	<b>\$ (1,886,250)</b>	<b>\$ (697,374)</b>
<b>Net basic and fully diluted loss per share</b>	<b>\$ (0.130)</b>	<b>\$ (0.064)</b>	<b>\$ (0.235)</b>	<b>\$ (0.086)</b>
Weighted average common share outstanding				
Basic	9,362,167	8,068,534	8,042,106	8,068,534

See accompanying notes to the consolidated financial statements (unaudited).

**GALAXY NEXT GENERATION, INC.**  
**Consolidated Statement of Stockholders' Equity (Deficit)**  
**Six Month Period Ended December 31, 2018**  
**(Unaudited)**

<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholder's Equity (Deficit)</b>
<b>Shares</b>	<b>Amount</b>			

<b>Balance, June 30, 2018</b>	9,655,813	\$965	\$3,108,873	\$(2,807,568)	\$302,270
Common stock issued as part of the private placement in September 2018	910	-	637,000	-	637,000
Common stock issued for services in December 2018	75,511	8	237,851	-	237,859
Consolidated net loss	-	-	-	(1,886,250)	(1,886,250)
<b>Balance, December 31, 2018</b>	<u>9,732,234</u>	<u>\$973</u>	<u>\$3,983,724</u>	<u>\$(4,693,818)</u>	<u>\$(709,121)</u>

See accompanying notes to the consolidated financial statements (unaudited).

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**GALAXY NEXT GENERATION, INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Six Months Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (1,886,250)	\$ (697,374)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	178,422	-
Amortization of convertible note discount	4,444	-
Issuance of stock for services	237,859	-
Changes in assets and liabilities:		
Accounts receivable	294,545	(100,973)
Inventories	213,151	500,366
Deferred revenue	(219,820)	-
Prepaid expenses and other assets	(198)	-
Accounts payable	(191,621)	(318,257)
Accrued expenses	23,943	(4,422)
Net used in operating activities	(1,345,525)	(620,660)
<b>Cash Flows from Financing Activities</b>		
Dividends	-	(1,587)
Principal payments on mortgage and capital lease obligations	(26,562)	-
Principal payments on short-term notes payable	(20,000)	-
Payments on advance from stockholder, net	(111,173)	(77,300)
Proceeds from convertible note payable	360,000	-
Proceeds from line of credit	463,672	-
Proceeds from issuance of common stock	637,000	-
Proceeds from notes payable	-	500,000
Proceeds from notes payable - related parties	45,000	-
Net provided in financing activities	1,347,937	421,113
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,412</b>	<b>(199,547)</b>
Cash, Beginning of Period	184,255	223,481
<b>Cash, End of Period</b>	<b>\$ 186,667</b>	<b>\$ 23,934</b>
<b>Supplemental and Non-Cash Disclosures</b>		
Non-cash debt discount on convertible note payable	<u>\$ 40,000</u>	<u>\$ -</u>
Cash paid during the period for interest	<u>\$ 62,365</u>	<u>\$ 15,031</u>

See accompanying notes to the consolidated financial statements (unaudited).

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**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies:**

**Corporate History, Nature of Business and Mergers**

Galaxy Next Generation LTD CO. ("Galaxy CO") was organized in the state of Georgia in February 2017 while R & G Sales, Inc. ("R&G") was organized in the state of Georgia in August 2004. Galaxy CO merged with R&G ("common controlled merger") on March 16, 2018, with R&G becoming the surviving company. R&G subsequently changed its name to Galaxy Next Generation, Inc. ("Galaxy").

FullCircle Registry, Inc., ("FLCR") is a holding company for the purpose of acquiring small profitable businesses to provide exit plans for those company's owners. FLCR's subsidiary, FullCircle Entertainment, Inc. ("Entertainment"), owns and operates Georgetown 14 Cinemas, a fourteen-theater movie complex located in Indianapolis, Indiana.

On June 22, 2018, Galaxy consummated a reverse triangular merger whereby Galaxy merged with and into Full Circle Registry, Inc.'s (FLCR) newly formed subsidiary - formed specifically for the transaction (Galaxy MS). The merger resulted in Galaxy MS becoming a wholly-owned subsidiary of FLCR. For accounting purposes, the acquisition of Galaxy by FLCR is considered a reverse acquisition, an acquisition transaction where the acquired company, Galaxy, is considered the acquirer for accounting purposes, notwithstanding the form of the transaction. The primary reason the transaction is being treated as a purchase by Galaxy rather than a purchase by FLCR is that FLCR is a public reporting company, Galaxy's stockholders gained majority control of the outstanding voting power of FLCR's equity securities. Consequently, the assets and liabilities and the operations that are reflected in the historical financial statements of the Company prior to the merger are those of Galaxy. The financial statements after the completion of the merger include the combined assets and liabilities of the combined company (collectively Galaxy Next Generation, Inc., Full Circle Registry, Inc. and FullCircle Entertainment, Inc., or "the Company").

In recognition of Galaxy's merger with FLCR, several things occurred: (1) FLCR amended its articles of incorporation to change its name from FullCircle Registry, Inc. to Galaxy Next Generation, Inc.; (2) Galaxy and FLCR changed its fiscal year end to June 30, effective June 2018; (3) FLCR authorized shares of preferred stock were increased to 200,000,000 and authorized shares of common stock were increased to 4,200,000,000, (prior to the Reverse Stock Split) both with a par value of \$0.0001; and (4) the Board of Directors and Executive Officers approved Gary LeCroy, President and Director; Magen McGahee, Secretary and Director; and Carl Austin, Director; and (5) the primary business operated by the combined company became the business that was operated by Galaxy.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Corporate History, Nature of Business and Mergers (Continued)**

Galaxy is a manufacturer and U.S. distributor of interactive learning technology hardware and software that allows the presenter and participant to engage in a fully collaborative instructional environment. Galaxy's products include Galaxy's own private-label interactive touch screen panel as well as numerous other national and international branded peripheral and communication devices. New technologies like Galaxy's own SAM series touchscreen panels are sold along with renowned brands such as Google Chromebooks, Microsoft Surface Tablets, Lenovo & Acer computers, Verizon WiFi and more. Galaxy's distribution channel consists of approximately 25 resellers across the U.S. who primarily sell its products within the commercial and educational market. Galaxy does not control where the resellers focus their resell efforts; however, the K-12 education market is the largest customer base for Galaxy products comprising nearly 90% of Galaxy's sales. In addition, Galaxy also possesses its own reseller channel where it sells directly to the K-12 market, primarily throughout the Southeast region of the United States.

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Any reference in these footnotes to applicable guidance is meant to refer to the authoritative U.S. generally accepted accounting principles ("GAAP") as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB").

Due to the change in year-end, the Company's fiscal year 2018 is shortened from 12 months to 3 months and is ending on June 30, 2018. Further, the financial statements as of June 30, 2018 represent the financial information of the Company subsequent to the acquisition. The financial statements for the three-month and six-month periods ending December 30, 2017 represent the financial information of the Company prior to the acquisition. All intercompany transactions and accounts have been eliminated in the consolidation.

The Company's financial reporting segments are Technology (reflecting the operations of Galaxy) and Entertainment (reflecting the operations of the movie theater). The Company is an over-the-counter public company traded under the stock symbol listing GAXY (formerly FLCR).

**Segment Reporting**

With the reverse merger between Galaxy and FLCR on June 22, 2018, the Company has identified two reportable segments: Technology and Entertainment. Segment determination is based on the internal organization structure, management of operations and performance evaluation by management and the Company's Board of Directors. Separate management of each segment is required because each business unit is subject to different operational issues and strategies.



**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Segment Reporting (Continued)**

The Technology segment sells interactive learning technology hardware and software that allows the presenter and participant to engage in a fully collaborative instructional environment. Galaxy's products include Galaxy's own private-label interactive touch screen panel as well as numerous other national and international branded peripheral and communication devices.

The Entertainment segment owns and operates Georgetown 14 Cinemas, a fourteen-theater movie complex located in Indianapolis, Indiana. Entertainment generates revenues from movie ticket sales and concessions. As part of the merger agreement, the parties have the right to spinout the Entertainment segment to the prior shareholders of FLCR. Management plans to implement the spinout in order to focus on its primary business plan, which is Galaxy.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates used in preparing the consolidated financial statements include those assumed in computing the allowance for doubtful accounts, inventory reserves, product warranty liabilities, valuation of goodwill and other long term assets and the valuation of deferred tax assets. It is reasonably possible that the significant estimates used will change within the next year.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Capital Structure**

In accordance with ASC 505, "Equity," the Company's capital structure is as follows:

	<b>December 31, 2018</b>			
	<b>Authorized</b>	<b>Issued</b>	<b>Outstanding</b>	
Common Stock	4,000,000,000	9,732,234	9,732,234	\$.0001 par value, one vote per share
Preferred stock	200,000,000	-	-	
Preferred stock – Class A	750,000	-	-	\$.0001 par value; no voting rights
Preferred stock – Class B	1,000,000	-	-	Voting rights of 10 votes for 1 Preferred B share; 2% preferred dividend payable annually
Preferred stock – Class C	9,000,000	-	-	\$.0001 par value; 500 votes per share, convertible to common
 <b>June 30, 2018</b>				
	<b>Authorized</b>	<b>Issued</b>	<b>Outstanding</b>	
Common Stock	4,000,000,000	9,655,813	9,655,813	\$.0001 par value, one vote per share
Preferred stock	200,000,000	-	-	
Preferred stock – Class A	750,000	-	-	\$.0001 par value; no voting rights
Preferred stock – Class B	1,000,000	-	-	Voting rights of 10 votes for 1 Preferred B share; 2% preferred dividend payable annually
Preferred stock – Class C	9,000,000	-	-	\$.0001 par value; 500 votes per share, convertible to common

The June 30, 2018 capital structure reflects the equity structure issued to affect the business combination, which provides comparable earnings per share information. There is no publicly traded market for the preferred shares.

**Business Combinations**

The Company accounts for business combinations under the acquisition method of accounting. Under this method, acquired assets, including separately identifiable intangible assets, and any assumed liabilities are recorded at their acquisition date estimated fair value. The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. Determining the fair value of assets acquired and liabilities assumed involves the use of significant estimates and assumptions.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Business Combinations (Continued)**

Concurrent with the reverse triangular merger, the Company applied pushdown accounting. Pushdown accounting refers to the use of the acquirer's basis in the preparation of the acquiree's separate financial statements as the new basis of accounting for the acquiree. See Note 11 for a discussion of the merger and the related impact on the Company's consolidated financial statements.

**Revenue Recognition**

Technology Interactive Panels and Related Products

The Company derives revenue from the sale of interactive panels and other related products. Sales of these panels may also include optional equipment, accessories and services (installation, training and other services, including maintenance services and/or an extended warranty). Product sales and installation revenue are recognized when all of the following criteria have been met: (1) products have been shipped or customers have purchased and accepted title to the goods; service revenue for installation of products sold is recognized as the installation services are performed, (2) persuasive evidence of an arrangement exists, (3) the price to the customer is fixed, and (4) collectability is reasonably assured.

Deferred revenue consists of customer deposits and advance billings of the Company's products where sales have not yet been recognized. Shipping and handling costs billed to customers are included in revenue in the accompanying statements of operations. Costs incurred by the Company associated with shipping and handling are included in cost of sales in the accompanying statements of operations. Sales are recorded net of sales returns and discounts, and sales are presented net of sales-related taxes.

Because of the nature and quality of the Company's products, the Company provides for the estimated costs of warranties at the time revenue is recognized for a period of five years after purchase as a secondary warranty. The manufacturer also provides a warranty against certain manufacturing and other defects. As of the six-month period ended December 31, 2018 and the period ended June 30, 2018, the Company accrued \$1,350 for estimated product warranty claims, which is included in accrued expenses in the accompanying balance sheets. The accrued warranty costs are based primarily on historical experience of actual warranty claims as well as current repair costs. There were no warranty claim expenses during the period ended December 31, 2018 or 2017.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Policies (Continued):**

**Revenue Recognition (Continued)**

Product sales resulting from fixed-price contracts involve a signed contract for a fixed price or a binding purchase order to provide the Company's interactive panels and accessories. Contract arrangements exclude a right of return for delivered items. Product sales resulting from fixed-price contracts are generated from multiple-element arrangements that require separate units of accounting and estimates regarding the fair value of individual elements. The Company has determined that its multiple-element arrangements that qualify as separate units of accounting are (1) product sales and (2) installation and related services. There is objective and reliable evidence of fair value for both the product sales and installation services and allocation of arrangement consideration for each of these units is based on their relative fair values. Each of these elements represent individual units of accounting, as the delivered item has value to a customer on a stand-alone basis. The Company's products can be sold on a stand-alone basis to customers which provides objective evidence of the fair value of the product portion of the multi-element contract, and thus represents the Company's best estimate of selling price.

The fair value of installation services is separately calculated using expected costs of installation services. Many times, the value of installation services is calculated using price quotations from subcontractors to the Company who perform installation services on a stand-alone basis.

The Company sells equipment with embedded software to its customers. The embedded software is not sold separately, and it is not a significant focus of the Company's marketing effort. The Company does not provide post-contract customer support specific to the software or incur significant costs that are within the scope of Financial Accounting Standards Board ("FASB") guidance on accounting for software to be leased or sold. Additionally, the functionality that the software provides is marketed as part of the overall product. The software embedded in the equipment is incidental to the equipment as a whole.

Entertainment Theater Ticket Sales and Concessions

Revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit card at the point of sale.

**Advertising**

Advertising costs are expensed as incurred. During the three-month periods ended December 31, 2018 and 2017, the Company incurred advertising expenses of \$4,441 and \$1,250, respectively. During the six-month periods ended December 31, 2018 and 2017, the Company incurred advertising expenses of \$8,209 and \$5,144, respectively.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Cash and Cash Equivalents**

The Company considers cash and cash equivalents to be cash in all bank accounts, including money market and temporary investments that have an original maturity of three months or less.

From time to time, the Company has on deposit, in institutions whose accounts are insured by the Federal Deposit Insurance Corporation, funds in excess of the insured maximum. The at-risk amount is subject to significant fluctuation daily throughout the year. The Company has never experienced any losses related to these balances, and as such, the Company does not believe it is exposed to any significant risk.

**Accounts Receivable**

The Company reports accounts receivable at invoiced amounts less an allowance for doubtful accounts. Interest is not charged on past due accounts. Management reviews each receivable balance and estimates that portion, if any, of the balance that will not be collected. The carrying amount of the accounts receivable is then reduced by an allowance based on management's estimate. Management deemed no allowance for doubtful accounts was necessary at December 31, 2018 or June 30, 2018.

**Inventories**

Inventory is stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out (FIFO) method of accounting. All inventory at December 31, 2018 and June 30, 2018, represents goods available for sale. Galaxy inventory is mostly comprised of interactive panels and accessories while FLCR inventory consists of concession inventory such as popcorn, soft drinks, and candy. Management estimates no obsolete or slow-moving inventory reserves at December 31, 2018 or June 30, 2018.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Property and Equipment (Continued)**

Property and equipment at December 31, 2018 and June 30, 2018, and the estimated useful lives used in computing depreciation, are as follows:

Building	40 years
Building improvements	8 years
Vehicles	5 years
Equipment	5 – 8 years
Furniture and fixtures	5 years

Depreciation is provided using the straight line method over the estimated useful lives of the depreciable assets. Depreciation expense was \$89,211 and \$0 for the three month periods ended December 31, 2018 and 2017, respectively. Depreciation expense was \$178,422 and \$0 for the six month periods ended December 31, 2018 and 2017, respectively.

**Long-lived Assets**

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset.

**Goodwill**

Goodwill is not amortized, but is reviewed for impairment at least annually, or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Judgments regarding indicators of potential impairment are based on market conditions and operational performance of the business.

At each fiscal year-end, the Company performs an impairment analysis of goodwill. The Company may assess its goodwill for impairment initially using a qualitative approach to determine whether conditions exist to indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If management concludes, based on its assessment of relevant events, facts and circumstances that it is more likely than not that a reporting unit's carrying value is greater than its fair value, then a goodwill impairment charge is recognized for the amount in excess, not to exceed the total amount of goodwill allocated to that reporting unit.

If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and no further testing is required. An impairment charge is recorded as general and administrative expense within the Company's statement of operations.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Income Taxes**

The Company accounts for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss from the current year and any adjustment to income taxes payable related to previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or subsequently enacted by the year-end date.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Under the asset and liability method the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be recognized.

Prior to the merger, Galaxy was organized as a Subchapter S Corporation under the Internal Revenue Code. There was no provision for federal and state income taxes for the three-month or six-month periods ending December 31, 2017 since the proportionate share of the taxable income or loss was included in the tax returns of the stockholders. However, upon completion of the merger, Galaxy consequently changed to a C Corporation.

**Research and Development**

The Company accounts for research and development (R&D) costs in accordance with the Research and Development topic of the ASC. Under the Research and Development topic of the ASC, all R&D costs must be charged to expense as incurred. Accordingly, internal R&D costs are expensed as incurred. Third-party R&D costs are expensed when the contracted work has been performed.

**Stock-based Compensation**

The Company records stock-based compensation in accordance with the provisions set forth in ASC 718, "*Stock Compensation*" using the modified prospective method. ASC 718 requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. The Company, from time to time, may issue common stock to acquire services or goods from non-employees. Common stock issued to persons other than employees or directors are recorded on the basis of their fair value.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 1 - Summary of Significant Accounting Policies (Continued):**

**Recent Accounting Pronouncements**

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805)-Clarifying the Definition of a Business. This guidance changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in Accounting Standards Codification (ASC 606) Revenue from Contracts with Customers. The new standard is effective for public entities beginning in fiscal years starting after December 15, 2017. We adopted this standard during the six-month period ended December 31, 2018. There was no significant impact on our financial statements as a result of adopting this standard.

In August 2017, FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities. This guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. The new standard is effective for public entities in fiscal years beginning after December 15, 2018. Early adoption is permitted. We plan to adopt this standard on July 1, 2019. We do not expect this guidance to have a material impact on our financial statements.

In August 2018, the U.S. Securities and Exchange Commission ("SEC") adopted the final rule under SEC Release No. 33-10532 Disclosure Update and Simplification, to eliminate or modify certain disclosure rules that are redundant, outdated, or duplicative of U.S. GAAP or other regulatory requirements. Among other changes, the amendments eliminated the annual requirement to disclose the high and low trading prices of our common stock. In addition, the amendments provide that disclosure requirements related to the analysis of shareholders' equity are expanded for interim financial statements. An analysis of the changes in each caption of shareholders' equity presented in the balance sheet must be provided in a note or separate statement, as well as the amount of dividends per share for each class of shares. This rule was effective on November 5, 2018, and we adopted this guidance during the quarter ended December 31, 2018.



**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 2 - Property and Equipment:**

Property and equipment are comprised of the following:

	December 31, 2018		June 30, 2018	
Land and buildings	\$	4,937,069	\$	4,937,069
Building improvements		363,083		363,083
Vehicles		92,353		92,353
Equipment		1,470,709		1,470,709
Furniture and fixtures		12,598		12,598
Accumulated depreciation		(2,799,783)		(2,621,361)
Property and equipment, net	\$	4,076,029	\$	4,254,451

**Note 3 - Line of Credit:**

The Company increased its bank line of credit agreement from \$750,000 to \$1,250,000 in December 2018. The line of credit bears interest at prime plus 0.5% (6.0% as of December 31, 2018 and 5.5% as of June 30, 2018) and expires in December 2019. The line of credit is collateralized by all assets of the business, certain property owned by a family member of a stockholder, equity investments of two stockholders, personal guarantees of two stockholders, and a key man life insurance policy. A minimum average bank balance of \$50,000 is required as part of the line of credit agreement. In addition, a 20% curtailment of the outstanding balance will occur during 2019. The outstanding balance was \$1,011,275 and \$547,603 at December 30, 2018 and June 30, 2018, respectively.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Notes 4 - Notes Payable:**

Long Term Notes Payable

The Company's long term notes payable obligations to unrelated parties are as follows as of December 31, 2018 and June 30, 2018:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Note payable to a bank. The note bears interest at 3.10% and matures in June 2019. The note is guaranteed by a stockholder and collateralized by a certificate of deposit owned by a related party. In May 2018, 50,000 shares of stock were issued to the related party in exchange for a \$100,000 reduction in the short-term note balance.	\$ 275,497	\$ 275,000
Note payable to an individual executed March 2018 assumed in acquisition (Note 11) in which the note accrues interest on the original principal balance at a rate of 6.25% annually. Interest is paid annually with principal due March 2021.	75,000	75,000
Mortgage payable assumed in acquisition; interest payable at 4.75%, and monthly payments of \$34,435 through December 31, 2016. The note payable was modified during the year ended December 31, 2017. After the modification, the interest rate was lowered to 2.5% annually with monthly payment of \$15,223 through July 15, 2020, and a balloon payment at maturity. The mortgage payable is secured by the building and land as well as guarantees by related parties. (Note 11)	4,493,570	4,512,710
Note payable to a financial institution for acquisition of vehicle with monthly installments required of \$153 maturing June 2022.	5,385	6,150
Capital leases with a related party for 3 delivery vehicles with monthly installments from \$253 to \$461, including 4% to 4.75% interest, maturing over 5-year terms expiring between April 2019 and July 2020.	10,514	17,668
Total Non-Related Party Notes Payable	4,859,966	4,886,528
Current Portion of Non-Related Party Notes Payable	282,728	362,181
Long-term Portion of Non-Related Party Notes Payable	<u>\$ 4,577,238</u>	<u>\$ 4,524,347</u>

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 4 - Notes Payable (Continued):**

Long Term Notes Payable (Continued)

Future minimum principal payments on the non-related party long term notes payable are as follows:

<u>Period ending December 31,</u>		
2019	\$	282,728
2020		4,498,481
2021		78,488
2022		269
	<u>\$</u>	<u>4,859,966</u>

Short Term Notes Payable

The Company's short term notes payable obligations to unrelated parties assumed in the acquisition (Note 11) are as follows as of December 31, 2018 and June 30, 2018:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Note payable to individual and bears interest at a rate of 8% interest annually and is due on demand.	\$ 20,000	\$ 20,000
Note payable to individual and bears interest at a rate of 8% interest annually and is due on demand.	10,000	10,000
Note payable to an individual in which the note accrues interest on the original principal balance at a rate of 6.25% interest annually and due on demand.	60,000	60,000
Note payable to an individual in which the note accrues interest on the original principal balance at a rate of 6.25% interest annually and was scheduled to mature in August 2018. The term was extended for another year.	25,000	25,000
Note payable to an individual in which the note accrues interest on the original principal balance at a rate of 6.25% interest annually and is due on demand.	25,000	25,000

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**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 4 - Notes Payable (Continued):**

Short Term Notes Payable (Continued)

Note payable to an individual in which the note accrues interest on the original principal balance at a rate of 10% interest annually and is due on demand.	5,000	25,000
Total Short Term Non-Related Party Notes Payable	<u>\$ 145,000</u>	<u>\$ 165,000</u>

Convertible Note Payable

On November 30, 2018, the Company signed a convertible promissory note with an investment firm. The \$400,000 note was issued at a discount of \$40,000 and bears interest at 5% per year. The loan principal and interest are convertible into shares of common stock at the lower of (a) 70% of the lowest traded price of the common stock during the 20 trading days immediately preceding the notice of conversion or (b) \$3 per share, beginning in May 2019. The note matures in August 2019. The note has prepayment penalties ranging from 110% to 125% of the principal and interest outstanding if repaid within 60 to 180 days from issuance. During the three and six month periods ended December 31, 2018, the Company recorded interest expense of \$1,666 and \$4,444 of amortization of debt discount, included in interest expense. As of December 31, 2018, the outstanding principal balance of the note is \$400,000, with an unamortized debt discount of \$35,556. The Company plans to pay the note in full prior to May 2019 through additional sources of financing.



**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 5 - Related Party Transactions:**

Notes Payable

The Company's notes payable obligations to related parties assumed in the acquisition (Note 11) are as follows as of December 31, 2018 and June 30, 2018:

	<b>December 31, 2018</b>	<b>June 30, 2018</b>
Note payable to a related party in which the note accrues interest on the original principal balance at a rate of 8% interest annually and is due on demand.	\$ 15,000	\$ 15,000
Note payable to a related party bearing interest at a rate of 8% interest annually, maturing in August 2019.	45,000	-
Various notes payable to a related party in which the note accrues interest on the original principal balance at a rate of 6.25% interest annually and was scheduled to mature in October 2017 and is currently due on demand.	91,000	91,000
Note payable to a related party in which the note accrues interest on the original principal balance at a rate of 6.25% interest annually and is due in August 2019.	8,000	8,000
Notes payable to a related party in which the note bears no interest and is scheduled to mature on demand.	25,000	25,000
Note payable to a related party in which the note accrues interest on the original principal balance at a rate of 9% interest annually and is scheduled to mature in October 2019.	125,000	125,000
Note payable to an individual executed February 2018 in which the note accrues interest on the original principal balance at a rate of 18% annually and is due on demand.	10,000	10,000
Various notes payable to a related party in which the note accrues interest on the original principal balance at a rate of 10% interest annually through December 31, 2016 at which time the interest rate was reduced to 6.25% interest annually. The notes are scheduled to mature at various dates through July 2021.	211,534	211,534
<b>Total Related Party Notes Payable</b>	<b>530,534</b>	<b>485,534</b>
<b>Current Portion of Related Party Notes Payable</b>	<b>530,534</b>	<b>485,534</b>
<b>Long-term Portion of Related Party Notes Payable</b>	<b>\$ -</b>	<b>\$ -</b>

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 5 - Related Party Transactions (Continued):**

Other Advances and Commitments

In support of the Company's efforts and cash requirements, it may rely on advances from related parties until such time that it can support its operations or attains adequate financing through sales of its equity or traditional debt financing. There is no formal written commitment for continued support by officers, directors or shareholders. Amounts represent advances or amounts paid in satisfaction of liabilities. The advances are unsecured, due on demand, and the amounts outstanding at December 31, 2018 and June 30, 2018 is \$149,000 and \$260,173, respectively.

Galaxy pays a related party \$7,500 as a collateral fee for securing the Company's short-term note payable with a certificate of deposit (see Note 4).

Leases

The Company's technology segment leases property used in operations from a related party under terms of an operating lease. The term of the lease expired on December 31, 2018 when the lease changed to a month-to-month operating lease. The monthly lease payment is \$1,500 plus maintenance and property taxes, as defined in the lease agreement. Rent expense for this lease, as well as other month-to-month leases, totaled \$17,146 and \$6,000 for the three-month periods ended December 31, 2018 and 2017, respectively. Rent expense totaled \$20,134 and \$9,669 for the six-month periods ended December 31, 2018 and 2017, respectively.

The Company leases three vehicles from related parties under capital leases. The Company is paying the lease payments directly to the creditors, rather than the lessor. The leased vehicles are used in operations for deliveries and installations.

Other Agreements

A stockholder's family member collateralizes the Company's short-term note with a CD in the amount of \$375,000, held at the same bank. The family member will receive a \$7,500 collateral fee for this service. In May 2018, 50,000 shares of stock were issued in exchange for a \$100,000 reduction in the short-term note balance.

Notes Payable Converted to Common Stock

On June 22, 2018, various board members and executives of FLCR exchanged their outstanding related party debt and accrued interest for 4% of the Company's common stock as described in Note 11.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 6 - Lease Agreements:**

Capital Lease Agreements

Capital lease agreements between the Company and related parties for vehicles (disclosed in Note 4) require monthly payments totaling \$1,066 (ranging from \$253 to \$461), including interest (ranging from 4.0% to 4.75%), over 5-year terms expiring between April 2019 and July 2020.

Operating Lease Agreements

The Company leases office, retail shop and warehouse facilities under operating leases from a related party (disclosed in Note 5) which require monthly payments of \$1,500 and subsequent to December 2018, became a month-to-month operating lease. Rent expense for this lease, as well as other month-to-month leases, totaled \$17,146 and \$6,000 for the three-month periods ended December 31, 2018 and 2017, respectively. Rent expense totaled \$20,134 and \$9,669 for the six-month periods ended December 31, 2018 and 2017, respectively.

Leases – Lessors

The Company's Entertainment segment leases space to a Save-A-Lot grocery store at the Indianapolis theater location. Save-A-Lot corporate assumed the lease in March 2014 for seven years with three five-year options. Monthly rent charged to the tenant is \$13,375 per month. Total rental income relating to this lease for the three-month periods ended December 31, 2018 and 2017 amounted to \$40,125 and \$0, respectively. Total rental income relating to this lease for the six-month periods ended December 31, 2018 and 2017 amounted to \$80,250 and \$0, respectively. The rental income is included in other income in the accompanying consolidated statements of operations.

The following is a schedule of future minimum rentals under the lease:

<u>Period ending December 31,</u>	
2019	\$ 163,500
2020	172,450
2021	120,400
	<u>\$ 456,350</u>

The initial lease term ends September 30, 2021. Save-A-Lot reserves the right to exercise three five-year options, which would extend the maturity date to September 30, 2036.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 7 - Equity:**

Certain equity transactions related to the reverse triangular merger occurred in September 2018, but have been reflected as of June 30, 2018, in the consolidated financial statements due to FLCR effectively transferring control to Galaxy as of June 22, 2018 (see Note 11). The following equity transactions occurred simultaneously, and are treated in these consolidated financial statements as being effective on that date:

- Galaxy shareholders transferred all the outstanding shares of common stock to the Merger Sub;
- Preferred Class C shares were converted into common stock in an amount equivalent to 89% ownership in the outstanding shares of the merged company;
- Common shares were issued to common stockholders in an amount equivalent to 7% ownership in the outstanding shares of the merged company;
- Common shares were issued to convertible debt holders in an amount equivalent to 4% ownership in the outstanding shares of the merged company (See Note 5).
- A reverse stock split was approved at a ratio of one new share for every 350 shares of common stock outstanding (1:350 Reverse Stock Split).

Private Placement

In March 2018, the Company offered 1,500,000 common shares to qualified investors at \$2 per share in a private placement memorandum ("PPM"). The private placement offering period expired in September 2018. Proceeds were raised to purchase inventory, pay merger costs and provide working capital. As a result of the PPM, the Company issued 1,374,850 shares to new investors resulting in proceeds of \$2,004,500 during the period from April 2018 to September 2018. Shares issued in the PPM are prior to the Reverse Stock Split.

On December 19, 2018, the Company issued 75,511 shares as a bonus to a board member for consulting services and as a performance incentive to an employee.

In May 2018, 50,000 shares of stock (143 shares post-Reverse Stock Split) were issued to the related party in exchange for a \$100,000 reduction in the short-term note balance (see Note 4).

See the capital structure section in Note 1 for disclosure of the equity components included in the Company's consolidated financial statements.



**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
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**Note 8 - Income Taxes:**

The U.S. Tax Cuts and Jobs Act (TCJA) legislation, enacted on December 22, 2017, reduces the U.S. federal corporate income tax rate from 35.0% to 21.0% and is effective January 1, 2018 for the Company. The Company has not generated any taxable income and has not recorded any current income tax expense at December 31, 2018. Consequently, the tax rate change has had no impact on the Company's current tax expense but impacts the deferred tax assets and liabilities and will impact future deferred tax assets and liabilities to be recognized.

The Company's deferred tax assets are primarily comprised of net operating losses ("NOL") that give rise to deferred tax assets. The operating loss carry-forwards of approximately \$1,500,000 were available prior to the merger and were set to expire in the year 2020. However, net operating loss carry forwards are limited when there is a change in control. Total net operating losses available at December 31, 2018 amounted to approximately \$3,500,000 (\$1,500,000 of pre-merger NOL's and approximately \$2,000,000 due to losses from the date of the merger to December 31, 2018). There is no tax benefit for goodwill impairment, which is permanently non-deductible for tax purposes. Additionally, due to the uncertainty of the utilization of net operating loss carry forwards a valuation allowance equal to the net deferred tax assets has been recorded.

The Company's effective tax rate differed from the federal statutory income tax rate for the period ended December 31, 2018 is as follows:

<b>December 31, 2018</b>	
Federal statutory rate	21%
State tax, net of federal tax effect	5.25%
Valuation allowance	-26.25%
Effective tax rate	0%

As of December 31, 2018, the Company does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. As of December 31, 2018, the Company's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 9 - Commitments, Contingencies, and Concentrations:**

Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Concentrations

Galaxy contracts the manufacturer of its products with overseas suppliers. The Company's sales could be adversely impacted by a supplier's inability to provide Galaxy with an adequate supply of inventory.

Galaxy has three customers that accounted for approximately 92% of accounts receivable at December 31, 2018 and 87% of accounts receivable at June 30, 2018. Galaxy has two customers that accounted for approximately 78% of revenues for the three month periods ended December 31, 2018 and three customers that accounted for 90% of revenues for the three-month period ended December 31, 2017. Galaxy has three customers that accounted for approximately 80% of revenues for the six month periods ended December 31, 2018 and two customers that accounted for 44% of revenues for the six-month period ended December 31, 2017. The Company routinely assesses the financial strength of its customers and, consequently, believes that its accounts receivable credit risk exposure is limited.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
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**Note 10 - Material Agreements:**

Manufacturing and Distributorship Agreement

In December 2016, Galaxy executed an agreement with a company in South Korea. Pursuant to such distribution agreement, the manufacturer agreed to manufacture, and the Company agreed to be the sole distributor of the interactive panels in the United States for a term of one year, with automatic annual renewals. The Company must submit a three-month rolling sales forecast (which acts as a purchase order) to the manufacturer, updated monthly. The manufacturer has three days to accept the purchase order and once accepted, the Company must pay the manufacturer 105% of the cost shown on the purchase order, 10% at the time the order is accepted and the remaining 95% within 120 days if the Company has sold the panels and been paid by the end customer. The manufacturer also provides a warranty for any defects in material and workmanship for a period of 26 months from the date of shipment to the Company.

The agreement contains a \$4 million minimum annual purchase commitment. This minimum purchase commitment was not met in 2017 or 2018; however, the manufacturer and the Company extended the agreement through December 31, 2019 under the same terms. Because the Company did not meet the minimum purchase commitment, the manufacturer can require the Company to work with their sales representative to establish a performance improvement plan, and the manufacturer has the right to terminate the agreement.

Consulting Agreement

Galaxy entered into a consulting agreement in May 2017 with two consultants for advisory services through July 2019. In exchange for consulting services provided, these consultants are entitled to receive consulting fees of \$15,000 per month and a 5.5% combined equity interest in Galaxy. The 5.5% equity interest was converted to common stock upon the commencement of the Common Controlled Merger Agreement of R&G and Galaxy CO (as described in Note 1). The Company paid the consultants \$102,000 and \$213,000 in fees and expenses for consulting services provided during the three-month and six-month periods ended December 31, 2018. No consulting fees were paid under this agreement during the periods ended December 31, 2017.

Consulting Agreement – Magellan FIN, LLC

The Company entered into a consulting agreement in May 2018 for advisory services such as maintaining ongoing stock market support such as drafting and delivering press releases and handling investor requests. The program will be predicated on accurate, deliberate and direct disclosure and information flow from the Company and dissemination to the appropriate investor audiences. In exchange for these consulting services provided, the advisor received \$15,000 at contract inception, an additional \$4,000 monthly through the term of the agreement, which is April 2019, and 10,000 shares of common stock. The Company incurred \$0 for consulting fees during the three-month period and \$23,000 during the six-month period ended December 31, 2018. No consulting fees were paid under this agreement during the periods ended December 31, 2017.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 10 - Material Agreements (Continued):**

KLIK Distribution Agreement

In September 2018, the Company signed a 1-year distributor agreement with KLIK Communications to be the sole distributor of KLIK products to US educational market. The agreement will automatically renew annually, unless three months' notice is given by either party. The agreement will end upon successful acquisition of KLIK by Galaxy, per the Letter of Intent signed in July 2018. Payment terms are 45 days after invoice. Delivery terms are FOB Deliver location. The KLIK product will replace the VIVI product (specialized interactive router) previously sold with the Galaxy panels. KLIK will provide a 2-year manufacturer's warranty from the date of shipment, and free software updates. The agreement provides KLIK with the option of storing the manufacturer's inventory at the Galaxy warehouse.

Distribution Agreement

Effective September 15, 2018, the Company signed a 2-year distribution agreement for Galaxy's SLIM series of interactive panels, a new Galaxy product. Galaxy outsourced the manufacturing to a vendor as manufacturing costs are less, and customers prefer an Android operating system. The agreement includes a commitment by Galaxy to purchase \$2 million of product during the first year beginning September 2018. The manufacturer will provide Galaxy with the product, including a three-year manufacturer's warranty from the date of shipment. The agreement renews automatically in two-year increments unless three months' notice is given by either party.

Agency Agreement

Effective December 11, 2018, the Company entered into a contract with Carter, Terry, and Company ("CTC") to act as an agent in raising capital. CTC will have the opportunity to receive a finder's fee ranging from 4 to 8% relative to the amount of capital raised, if successful.

**GALAXY NEXT GENERATION, INC.**  
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**Note 11 - Reverse Acquisition:**

On June 22, 2018, Galaxy consummated a reverse triangular merger whereby Galaxy merged with and into FLCR's newly formed subsidiary, Galaxy MS, Inc. which was formed specifically for the transaction. Under the terms of the merger, Galaxy's shareholders transferred all their outstanding shares of common stock to Galaxy MS, in return for FLCR's Series C Preferred Shares, which were equivalent to approximately 3,065,000,000 shares of the common stock of FLCR on a pre-reverse stock split basis. This represents approximately 89% of the outstanding common stock of FLCR, with the remaining 11% of common stock distributed as follows: (a) an ownership interest of seven percent (7%) to the holders of common stock, pro rata; and (b) four percent (4%) of the common stock to the holders of convertible debt, pro rata.

Concurrent with the reverse triangular merger, the Company applied pushdown accounting; therefore, the consolidated financial statements after completion of the reverse merger include the assets, liabilities, and results of operations of the combined company from and after the closing date of the reverse merger, with only certain aspects of pre-consummation stockholders' equity remaining in the consolidated financial statements.

There was no cash consideration paid by Galaxy to FLCR on the date of the reverse triangular merger. Instead, shares of stock were issued and exchanged, and the Company acquired \$1,511,844 of net assets of FLCR. At the closing of the merger, all of FLCR's convertible promissory notes were converted into FLCR's common shares. The merger agreement contains potential future tax advantages of the net operating loss carryforward available to offset future taxable income of the combined company, up to a maximum of \$150,000, over a 5-year period beginning June 22, 2018. There is a valuation allowance reducing this tax benefit to zero.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 11 - Reverse Acquisition (Continued):**

The following table summarizes the preliminary allocation of the fair value of the assets and liabilities as of the merger date through pushdown accounting. The preliminary allocation to certain assets and/or liabilities may be adjusted by material amounts as the Company continues to finalize the fair value estimates.

Assets	
Cash	\$ 22,205
Property and equipment	4,209,995
Other	20,716
Other assets	1,511,844
Goodwill	834,220
 Total Assets	 6,598,980
Liabilities	
Accounts payable	208,763
Long-term debt	4,593,851
Short-term debt	799,534
Accrued interest	78,948
Other	83,664
 Total Liabilities	 5,764,760
 Net Assets	 <u>\$ 834,220</u>
 Consideration	 \$ -
Fair value of noncontrolling interests	834,220
	<u>\$ 834,220</u>

As a result of the Company pushing down the effects of the acquisition, certain accounting adjustments are reflected in the consolidated financial statements, such as goodwill recognized amounting to \$834,220 and reflected in the balance sheet. Goodwill recognized is primarily attributable to the acquisition of the fair value of the public company structure and other intangible assets that do not qualify for separate recognition.

Other assets noted in the table above consist of the difference between the acquired assets and liabilities of Full Circle Entertainment to be distributed to pre-acquisition FLCR shareholders. The Company expects to exercise its option to spin out the Entertainment subsidiary within one year to focus on its primary business plan as discussed herein and distribute all respective Entertainment assets and liabilities to these shareholders. As a result, the Company does not anticipate receiving any economic benefit from the related assets in the table above, nor incurring any obligations from the corresponding liabilities.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

The Company sold the Entertainment subsidiary to a related party on February 5, 2019 in exchange for 38,625 Galaxy common shares. The sale of Entertainment enabled the Company to focus its resources into the operations of the Technology segment. The consideration received for the sale of Entertainment was 38,625 shares of Galaxy common stock at the fair value on the date of the transaction of \$92,700. In February 2019, the fair value of the Galaxy common shares received from the buyers for Entertainment will offset the assets and liabilities of Entertainment, and other assets of Technology, with any difference recorded as a reduction to additional paid in capital during the third quarter of fiscal year ending June 30, 2019.

The following table presents a summary of Entertainment's identifiable assets and liabilities at December 31, 2018, prior to the sale on February 6, 2019:

	Entertainment	
<b>Assets</b>		
Cash	\$	44,526
Property and equipment, net		4,040,204
Receivables		17,662
Inventory		2,408
Prepaid and other current assets		1,778
Other assets		1,522,714
Total Assets		5,629,292
<b>Liabilities</b>		
Accounts payable		103,960
Debt		5,398,490
Accrued expenses		128,073
Total liabilities	\$	5,630,523

**Note 12 – Stock Plan**

An Employee, Directors, and Consultants Stock Plan for the Year 2019 ("Plan") was established by the Company. The Plan is intended to attract and retain employees, directors and consultants by aligning the economic interests of such individuals more closely with the Company's stockholders, by paying fees or salaries in the form of shares of the Company's common stock. The Plan is effective December 28, 2018, and expires December 31, 2019. Common shares of 1,000,000 are reserved for stock awards under the Plan. There were no shares awarded under the Plan as of December 31, 2018.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 13 - Segment Reporting**

The Company has identified two reportable segments due to the merger that occurred on June 22, 2018: Technology and Entertainment.

The Technology segment sells interactive learning technology hardware and software that allows the presenter and participant to engage in a fully collaborative instructional environment. Galaxy's products include Galaxy's own private-label interactive touch screen panel as well as numerous other national and international branded peripheral and communication devices.

The Entertainment segment owns and operates Georgetown 14 Cinemas, a fourteen-theater movie complex located in Indianapolis, Indiana. Entertainment generates revenues from movie ticket sales and concessions. As part of the merger agreement, the parties have the right to spinout the Entertainment segment to the prior shareholders of FLCR. Management plans to implement the spinout in order to focus on its primary business plan, which is Galaxy.

The following table presents a summary of identifiable assets as of December 31, 2018:

<b>Assets</b>	Technology	Entertainment
Cash	\$ 142,141	\$ 44,526
Property and equipment, net	35,825	4,040,204
Receivables	29,519	17,662
Inventory	371,205	2,408
Prepaid and other current assets	1,184	1,778
Goodwill	834,220	-
Other assets	0	1,522,714
<b>Total Assets</b>	<b>1,414,094</b>	<b>5,629,292</b>
<b>Liabilities</b>		
Accounts payable	417,407	103,960
Debt	1,661,729	5,398,490
Accrued expenses	42,848	128,073
<b>Total liabilities</b>	<b>\$ 2,121,984</b>	<b>\$ 5,630,523</b>



**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 13 - Segment Reporting (continued)**

The following table presents a summary of operating information for the six-month period ended December 31, 2018:

	Technology	Entertainment
<b>Revenues</b>		
Technology	\$ 857,586	\$ -
Entertainment	-	511,044
<b>Cost of Sales</b>		
Technology	717,240	-
Entertainment	-	163,323
<b>Gross Profit</b>		
	140,346	347,721
<b>General and Administrative Expenses</b>		
Technology	1,940,582	-
Entertainment	-	425,188
<b>Other Income (Expense)</b>		
Technology	(22,840)	-
Entertainment	-	14,293
<b>Net Loss</b>		
	<u>\$ (1,823,076)</u>	<u>\$ (63,174)</u>

**Note 14 - Going Concern:**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As reflected in the accompanying consolidated financial statements, the Company had negative working capital of approximately \$2,600,000, an accumulated deficit of approximately \$7,000,000, and cash used in operations of approximately \$1,300,000 at December 31, 2018.

**GALAXY NEXT GENERATION, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Six Month Period Ended December 31, 2018 and 2017 (Unaudited)**

**Note 14 - Going Concern (continued):**

The Company's operational activities and the payment for such has primarily been funded through related party advances, debt financing, a private placement offering of common stock and through the deferral of accounts payable and other expenses. The Company intends to raise additional capital through the sale of equity securities or borrowings from financial institutions and possibly from related and nonrelated parties who may in fact lend to the Company on reasonable terms. Management believes that its actions to secure additional funding will allow the Company to continue as a going concern. There is no guarantee the Company will be successful in achieving any of these objectives. These sources of working capital are not assured, and consequently do not sufficiently mitigate the risks and uncertainties disclosed above. The ability of the Company to continue as a going concern is dependent upon management's ability to raise capital from the sale of its equity and, ultimately, the achievement of operating revenues. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

As part of the merger agreement, the parties have the right to spin out the Entertainment segment to the prior shareholders of FLCR. See Notes 11 and 15.

**Note 15 - Subsequent Events:**

The Company has evaluated subsequent events through the date on which the consolidated financial statements were available to be issued.

Entertainment segment borrowed operating funds in the form of a \$30,000 note payable from a related party in January 2019.

On February 6, 2019, the Company sold Entertainment to CIA Theaters, a related party. Entertainment is a fourteen-theater movie complex located in Indianapolis, Indiana. See Note 11.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto and the other financial data appearing elsewhere in this Form 10-Q. Management's discussion and analysis contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

*General:*

Where this Form 10-Q includes "forward-looking" statements within the meaning of Section 27A of the Securities Act, we desire to take advantage of the "safe harbor" provisions thereof. Therefore, Galaxy, is including this statement for the express purpose of availing itself of the protections of the safe harbor provisions with respect to all such forward-looking statements. The forward-looking statements in this Form 10-Q reflect our current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ from those anticipated. In this Form 10-Q, the words "anticipates," "believes," "expects," "intends," "future" and similar expressions identify forward-looking statements. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this section. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things:

- Attracting new financing to fund our operations and new business development;
- Focusing on increasing traditional sales and gross profit;
- Closely managing operational costs; and
- Improving the functionality and usefulness of our products and services.

***Revenue recognition***

**Theater Ticket Sales and Concessions – Entertainment Segment:**

Revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit card at the point of sale.

**Interactive Panels and Related Products – Technology Segment:**

The Company derives revenue from the sale of interactive panels and other related products. Sales of these panels may also include optional equipment, accessories and services (installation, training and other services, including maintenance services and/or an extended warranty). Product sales and installation revenue are recognized when all of the following criteria have been met: (1) products have been shipped or customers have purchased and accepted title to the goods; service revenue for installation of products sold is recognized as the installation services are performed, (2) persuasive evidence of an arrangement exists, (3) the price to the customer is fixed, and (4) collectability is reasonably assured.



Deferred revenue consists of customer deposits and advance billings of the Company's products where sales have not yet been recognized. Shipping and handling costs billed to customers are included in revenue in the accompanying statements of operations. Costs incurred by the Company associated with shipping and handling are included in cost of sales in the accompanying statements of operations. Sales are recorded net of sales returns and discounts, and sales are presented net of sales-related taxes.

Because of the nature and quality of the Company's products, the Company provides for the estimated costs of warranties at the time revenue is recognized for a period of five years after purchase as a secondary warranty. The manufacturer also provides a warranty against certain manufacturing and other defects. As of the period ended December 31, 2018 and the June 30, 2018, the Company accrued \$1,350 for estimated product warranty claims, which is included in accrued expenses in the accompanying balance sheets. The accrued warranty costs are based primarily on historical experience of actual warranty claims as well as current repair costs. There were no warranty claim expenses during the three-month and six-month periods ended December 31, 2018 or 2017.

Product sales resulting from fixed-price contracts involve a signed contract for a fixed price or a binding purchase order to provide the Company's interactive panels and accessories. Contract arrangements exclude a right of return for delivered items. Product sales resulting from fixed-price contracts are generated from multiple-element arrangements that require separate units of accounting and estimates regarding the fair value of individual elements. The Company has determined that its multiple-element arrangements that qualify as separate units of accounting are (1) product sales and (2) installation and related services. There is objective and reliable evidence of fair value for both the product sales and installation services and allocation of arrangement consideration for each of these units is based on their relative fair values. Each of these elements represent individual units of accounting, as the delivered item has value to a customer on a stand-alone basis. The Company's products can be sold on a stand-alone basis to customers which provides objective evidence of the fair value of the product portion of the multi-element contract, and thus represents the Company's best estimate of selling price.

The fair value of installation services is separately calculated using expected costs of installation services. Many times the value of installation services is calculated using price quotations from subcontractors to the Company who perform installation services on a stand-alone basis.

The Company sells equipment with embedded software to its customers. The embedded software is not sold separately and it is not a significant focus of the Company's marketing effort. The Company does not provide post-contract customer support specific to the software or incur significant costs that are within the scope of Financial Accounting Standards Board ("FASB") guidance on accounting for software to be leased or sold. Additionally, the functionality that the software provides is marketed as part of the overall product. The software embedded in the equipment is incidental to the equipment as a whole.

### ***Business Combinations***

The Company accounts for business combinations under the acquisition method of accounting. Under this method, acquired assets, including separately identifiable intangible assets, and any assumed liabilities are recorded at their acquisition date estimated fair value. The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. Determining the fair value of assets acquired and liabilities assumed involves the use of significant estimates and assumptions.

Concurrent with the reverse triangular merger, the Company applied pushdown accounting. Pushdown accounting refers to the use of the acquirer's basis in the preparation of the acquiree's separate financial statements as the new basis of accounting for the acquiree.

### ***Goodwill***

Goodwill is not amortized, but is reviewed for impairment at least annually, or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Judgments regarding indicators of potential impairment are based on market conditions and operational performance of the business.

At each fiscal year-end, the Company performs an impairment analysis of goodwill. The Company may assess its goodwill for impairment initially using a qualitative approach to determine whether conditions exist to indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If management concludes, based on its assessment of relevant events, facts and circumstances that it is more likely than not that a reporting unit's carrying value is greater than its fair value, then a goodwill impairment charge is recognized for the amount in excess, not to exceed the total amount of goodwill allocated to that reporting unit.

If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and no further testing is required. An impairment charge is recorded as a general and administrative expense within the Company's statement of operations.

### **Product Warranty**

We generally warrant our product against certain manufacturing and other defects. These product warranties are provided for specific periods of time, depending on the nature of the product, the geographic location of its sales and other factors. As of the period ended December 31, 2018 and June 30, 2018, we accrued approximately \$1,350 for estimated product warranty claims, which is included in accrued expenses in the accompanying balance sheets. The accrued warranty costs are based primarily on historical experience of actual warranty claims as well as current information on repair costs. There were no warranty claims for the three-month and six -month periods ended December 31, 2018 or 2017.

### **Recent Accounting Pronouncements Accounting Pronouncements Not Yet Adopted**

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. This ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, using a modified retrospective approach. Early adoption is permitted. The Company is evaluating the potential impact that adoption will have on its consolidated financial statements and related disclosures.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

### **Revenue**

#### *Technology:*

Revenues recognized were \$354,922 and \$1,597,296 for the three month periods ended December 31, 2018 and 2017, respectively. Revenues recognized were \$857,586 and \$1,844,008 for the six month periods ended December 31, 2018 and 2017, respectively. Additionally, deferred revenue amounted to \$0 and \$219,820 as of December 31, 2018 and June 30, 2018. Revenue fluctuate based on cash flows available for purchases of inventory. During the period being reported, the timeline for inventory orders from overseas manufacturing taking approximately 30 days from order to delivery, with additional time required to deliver and install, impacted when sales were recorded.

#### *Entertainment:*

Revenues were \$294,289 and \$0 for the three month periods ended December 31, 2018 and 2017, respectively. Revenues were \$511,044 and \$0 for the six month periods ended December 31, 2018 and 2017, respectively. Revenues fluctuate based on attendance by customers. Attendance at the theater fluctuates based on viewing options.

### **Cost of Revenue and Gross Profit Summary**

#### *Technology:*

Our cost of revenue was \$309,889 and \$1,339,505 for the three month periods ended December 31, 2018 and 2017, respectively. Our cost of revenue was \$717,240 and \$1,531,358 for the six month periods ended December 31, 2018 and 2017, respectively. Cost of revenue consist primarily of manufacturing, freight, and installation costs. There are no significant overhead costs which impact cost of revenue.

Our gross margin percentage was 13% and 16% for the three month periods ended December 31, 2018 and 2017, respectively, excluding office supplies. Our gross margin percentage was 16% and 17% for the six month periods ended December 31, 2018 and 2017, respectively, excluding office supplies.

#### *Entertainment:*

Our cost of revenue was \$91,765 and \$0 for the three month periods ended December 31, 2018 and 2017, respectively. Our cost of revenue was \$163,323 and \$0 for the six month periods ended December 31, 2018 and 2017, respectively. Cost of revenues represent film rental costs and concession food costs primarily.

Our gross margin percentage was 69% for the three month periods ended December 31, 2018. Our gross margin percentage was 68% for the six month periods ended December 31, 2018.

### **General and Administrative**

General and administrative expenses were \$1,290,516 and \$760,852 for the three month periods ended December 31, 2018 and 2017, respectively. General and administrative expenses were \$1,940,582 and \$955,872 for the six month periods ended December 31, 2018 and 2017, respectively. General and administrative expenses consist primarily of salaries and stock compensation expense, office rent, insurance premiums, and professional fees.

General and administrative expenses include sales and marketing expenses of \$4,441 and \$1,250 for the three month and six month periods ended December 31, 2018, and 2017, respectively. Sales and marketing expenses consists primarily of advertising expenses and technology trade shows. The Company is making efforts to get new technology to the market and advertising is becoming necessary.

### **Interest Expense**

Interest expenses amounted to \$13,077 and \$14,230 for the three month periods ended December 31, 2018 and 2017, respectively. Interest expenses amounted to \$22,840 and \$15,031 for the six month periods ended December 31, 2018 and 2017, respectively.

### **Net Loss for the Period**

As a result of the foregoing, net loss incurred for the three month periods ended December 31, 2018 and 2017 was \$(1,258,560) and \$(516,664), respectively. As a result of the foregoing, net loss incurred for the six month periods ended December 31, 2018 and 2017 was \$(1,823,076) and \$(697,374), respectively..

### *Entertainment*

### **General and Administrative**

General and administrative expenses during the three month periods ended December 31, 2018 and 2017 was \$211,660 and \$0, respectively. General and administrative expenses during the six month periods ended December 31, 2018 and 2017 was \$425,188 and \$0, respectively. General and administrative expenses consists primarily of salaries expense, utilities, depreciation and professional fees.

### **Interest Expense**

Interest expense was \$475 and \$0 for the three month and six month periods ending December 31, 2018 and 2017, respectively and primarily related to interest on debt, including the mortgage on the building

### **Net Income for the Period**

As a result of the foregoing, net income for the three month periods ending December 31, 2018 and 2017 was \$3,763 and \$0, respectively. As a result of the foregoing, net loss for the six month periods ending December 31, 2018 and 2017 was \$63,174 and \$0, respectively.

### **Liquidity and Capital Resources**

#### *Consolidated*

The Company's cash totaled \$186,667 at December 31, 2018, as compared with \$184,255 at June 30, 2018, an increase of \$2,412. Net cash of \$1,345,525 was used by operations for the six month period ended December 31, 2018. Net cash of \$1,347,937 was provided from financing activities for the six month period ended December 31, 2018, primarily derived from the issuance of common stock and the proceeds from line of credit and the convertible note payable..

Total current liabilities totaled \$3,175,269 and \$2,958,369 as of December 31, 2018 and June 30, 2018, respectively, which primarily consists of a line of credit, short term notes payable, shareholder payables, short term related party payables, accrued expenses, accounts payable (December and June), deferred revenue (June) and convertible note payable (December).

To implement our business plan we may require additional financing. Additional financings may come from future equity or debt offerings that could result in dilution to our stockholders. Further, current adverse capital and credit market conditions could limit our access to capital. We may be unable to raise capital or bear an unattractive cost of capital that could reduce our financial flexibility.

Our long-term liquidity requirements will depend on many factors, including the rate at which we grow our business and footprint in the industries. To the extent that the funds generated from operations are insufficient to fund our activities in the long term, we may be required to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if it is available, it will be on terms acceptable to us.

#### **Off-Balance Sheet Arrangements**

Other than office lease commitments discussed in Note 6 and commitments discussed in Note 9 to our consolidated financial statements, we do not have any off-balance sheet arrangements.

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

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018.

Our management, with the participation of our president (our principal executive officer, principal accounting officer and principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our president (our principal executive officer, principal accounting officer and principal financial officer) has concluded that, as of the end of such period, our disclosure controls and procedures were not effective to ensure that information that is required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our president (our principal executive officer and our principal accounting officer and principal financial officer), as appropriate, to allow timely decisions regarding required disclosure. The reason or these deficiencies are as follows:

- 1) We have an inadequate number of administrative personnel.
- 2) We do not have sufficient segregation of duties within our accounting functions.
- 3) We have insufficient written policies and procedures over our disclosures.

#### **Evaluation of Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our president (our principal executive officer and our principal accounting officer and principal financial officer), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of our Company are being made only in accordance with authorizations of management and directors of our Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our president, our principal executive officer and our principal accounting officer and principal financial officer, an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 in accordance with the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Based on this assessment, management concluded that as of December 31, 2018, our Company's internal control over financial reporting was not effective based on present Company activity. Our Company is in the process of adopting specific internal control mechanisms. Future controls, among other things, will include more checks and balances and communication strategies between the management and the board to ensure efficient and effective oversight over Company activities as well as more stringent accounting policies to track and update our financial reporting.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting identified in connection with the evaluation described above during the quarter ended December 31, 2018 that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

There are no pending legal proceedings.

### ITEM 1A. RISK FACTORS.

Not applicable.

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

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.



#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 5. OTHER INFORMATION.

None.

#### ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
<a href="#">31.1</a>	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a>	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a>	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<a href="#">32.2</a>	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### SIGNATURES

Pursuant to the requirement of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

GALAXY NEXT GENERATION, INC.

Date: February 14, 2019

/s/ Gary LeCroy

Gary LeCroy  
Chief Executive Officer and Director

Date: February 14, 2019

/s/Magen McGahee

Magen McGahee  
Chief Financial Officer and Director

Date: February 14, 2019

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gary Lecroy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Galaxy Next Generation, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable 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 involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 13, 2019

Galaxy Next Generation, Inc.

By: /s/ Gary Lecroy  
Gary Lecroy  
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Megan McGahee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Galaxy Next Generation, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable 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 involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 13 , 2019

Galaxy Next Generation, Inc.

By: /s/ Magen McGahee

Magen McGahee  
Chief Financial Officer

**CERTIFICATION**  
**OF**  
**CHIEF EXECUTIVE OFFICER**  
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Galaxy Next Generation, Inc. (the "Company") for the quarter ending December 31, 2018, I, Gary Lecroy, Chief Executive Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the fiscal quarter ending December 31, 2018, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Quarterly Report on Form 10-Q for the Quarter ending December 31, 2018, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 13, 2019

Galaxy Next Generation, Inc.

By: Gary Lecroy

Gary Lecroy

**CERTIFICATION**  
**OF**  
**CHIEF FINANCIAL OFFICER**  
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Galaxy Next Generation, Inc. (the "Company") for the quarter ending December 31, 2018, I, Magen McGahee, Chief Financial Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the fiscal quarter ending December 31, 2018, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in such Quarterly Report on Form 10-Q for the Quarter ending December 31, 2018, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 13, 2019

Galaxy Next Generation, Inc.

By: /s/ Magen McGahee

Magen McGahee