

Galaxy Gaming, Inc.
Form 10-Q
August 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the quarterly period ended June 30, 2013

OR

Transition Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the transition period from to

Commission file number: **000-30653**

Galaxy Gaming, Inc.

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

Nevada

(State or other jurisdiction of incorporation or organization)

20-8143439

(IRS Employer Identification No.)

6980 O'Bannon Drive, Las Vegas, Nevada 89117

(Address of principal executive offices)

(702) 939-3254

(Issuer's telephone number)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 38,310,591 common shares as of August 14, 2013.

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GALAXY GAMING, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

4	<u>Balance Sheets as of June 30, 2013 and December 31, 2012 (unaudited);</u>
5	<u>Statements of Operations for the three and six months ended June 30, 2013 and 2012 (unaudited);</u>
6	<u>Statements of Comprehensive Income (Loss) for the six months ended June 30, 2013 and 2012</u> <u>(unaudited);</u>
7	<u>Statements of Cash Flows for the six months ended June 30, 2013 and 2012 (unaudited);</u>
8-24	<u>Notes to Financial Statements (unaudited);</u>

Table of Contents**GALAXY GAMING, INC.****BALANCE SHEETS****(Unaudited)**

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012 (Unaudited)
Current assets:		
Cash and cash equivalents	\$243,169	\$398,424
Restricted cash	235,217	216,964
Accounts receivables, net allowance for bad debts of \$41,165 and \$44,223	1,049,730	1,026,768
Prepaid expenses	74,808	29,443
Inventory	322,381	217,772
Note receivable – related party, current portion	17,675	17,155
Deferred tax asset	138,667	341,823
Other current assets	46,856	42,375
Total current assets	2,128,503	2,290,724
Property and equipment, net	52,368	43,399
Products leased and held for lease, net	65,081	47,433
Intangible assets, net	17,755,964	18,550,416
Goodwill	1,091,000	1,091,000
Note receivable – related party, net of current portion	366,409	371,106
Deferred income taxes	114,646	—
Other assets, net	9,056	10,868
Total assets	\$21,583,027	\$22,404,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$291,566	\$286,983
Accrued expenses	213,363	251,734
Deferred revenue	480,712	440,342
Jackpot liabilities	238,363	222,109
Notes payable, current portion	2,547,079	2,360,930
Total current liabilities	3,771,083	3,562,098
Notes payable, net of debt discount, net of current portion	16,430,243	18,250,864
Deferred income taxes	75,497	—
Total liabilities	20,276,823	21,812,962
Commitments and Contingencies (See Note 11)		
Stockholders' equity		

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Preferred stock, 10,000,000 shares, \$.001 par value preferred stock authorized; 0 shares issued and outstanding	—	—
Common stock, 65,000,000 shares authorized; \$.001 par value 38,310,591 shares issued and outstanding	38,311	38,311
Additional paid-in capital	2,115,999	2,113,097
Stock warrants	401,827	401,827
Accumulated deficit	(1,376,518)	(1,565,505)
Accumulated other comprehensive income (loss)	126,585	(395,746)
Total stockholders' equity	1,306,204	591,984
 Total liabilities and stockholders' equity	 \$21,583,027	 \$22,404,946

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

Table of Contents**GALAXY GAMING, INC.****STATEMENTS OF OPERATIONS****(Unaudited)**

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenue:				
Product leases and royalties	\$ 1,931,376	\$ 1,774,535	\$ 3,820,806	\$ 3,402,855
Product sales and service	12,350	15,681	19,298	33,068
Total revenue	1,943,726	1,790,216	3,840,104	3,435,923
Costs and expenses:				
Cost of ancillary products and assembled components	32,232	37,837	59,483	59,105
Selling, general and administrative	986,482	1,032,933	1,944,064	2,135,721
Research and development	138,835	87,470	239,280	148,675
Depreciation	11,280	4,288	21,440	8,553
Amortization	397,226	402,327	794,452	809,041
Total costs and expenses	1,566,055	1,564,855	3,058,719	3,161,095
Income (loss) from operations	377,671	225,361	781,385	274,828
Other income (expense):				
Interest income	5,809	4,510	11,672	10,581
Interest expense	(258,543)	(218,367)	(515,560)	(445,114)
Gain on settlement	—	50,000	—	50,000
Total other income (expense)	(252,734)	(163,857)	(503,888)	(384,533)
Income (loss) before provision for income taxes	124,937	61,504	277,497	(109,705)
Benefit (provision) for income taxes	(39,747)	—	(88,510)	—
Net income (loss)	\$ 85,190	\$ 61,504	\$ 188,987	\$ (109,705)
Basic income (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Diluted income (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Weighted average shares outstanding:				
Basic	38,310,591	38,310,591	38,310,591	37,922,716
Diluted	38,410,591	41,017,013	38,410,591	40,633,368

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

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GALAXY GAMING, INC.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2013	2012
	(Unaudited)	(Unaudited)
Net income (loss)	\$ 188,987	\$ (109,705)
Other comprehensive income (loss):		
Foreign currency translation adjustments	522,531	(49,736)
Total comprehensive income (loss)	\$ 711,518	\$ (159,441)

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

Table of Contents**GALAXY GAMING, INC.**

STATEMENTS OF CASH FLOWS

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2013	2012
	(Unaudited)	(Restated) (Unaudited)
Cash flows from operating activities:		
Net income (loss) for the period	\$ 188,987	\$ (109,705)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	21,440	33,059
Amortization expense	794,452	786,347
Amortization of debt discount	104,316	104,316
Provision for bad debts	—	15,000
Deferred income tax provision	88,510	—
Share-based compensation	2,902	88,249
Changes in operating assets and liabilities:		
Increase in restricted cash	(18,253)	(23,597)
Increase in accounts receivable	(22,902)	(121,937)
(Increase) decrease in other current assets	(4,481)	6,505
Increase in inventory	(104,609)	(26,753)
(Increase) in prepaid expenses	(45,365)	(14,258)
Increase in accounts payable	4,583	36,019
(Decrease) increase in accrued expenses	(38,649)	18,570
Increase in deferred revenue	40,370	86,411
Increase in jackpot liabilities	16,254	24,193
Net cash provided by operating activities	1,027,555	902,419
Cash flows from investing activities:		
Acquisition of property and equipment	(18,347)	—
Increase in note receivable	—	(7,383)
Payments received on note receivable	4,177	—
Increase in products leased or held for lease	(27,898)	—
Net cash used in investing activities	(42,068)	(7,383)
Cash flows from financing activities:		
Principal payments on notes payable – related party	—	(469)
Principal payments on notes payable	(1,135,014)	(911,144)
Net cash used in financing activities	(1,135,014)	(911,613)
Effect of exchange rate changes on cash	(5,728)	—
Net decrease in cash and cash equivalents	(155,255)	(16,577)
Cash and cash equivalents – beginning of period	398,424	182,907
Cash and cash equivalents – end of period	\$ 243,169	\$ 166,330
Supplemental cash flow information:		

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Cash paid for interest	\$515,560	\$445,114
Cash paid for income taxes	\$—	\$—
Supplemental non-cash financing activities information:		
Effect of exchange rate on note payable in foreign currency	\$603,774	\$192,522

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

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GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Unless the context indicates otherwise, references to “Galaxy Gaming, Inc.,” “we,” “us,” “our,” or the “Company,” refers to Galaxy Gaming, Inc., a Nevada corporation. “GGLLC” refers to Galaxy Gaming, LLC, a Nevada limited liability company that was a predecessor of the Company’s business but is not directly associated with Galaxy Gaming, Inc.

Description of business. We are engaged in the business of designing, developing, manufacturing and/or acquiring proprietary casino table games and associated technology, platforms and systems for the global gaming industry. Beginning in 2011, we expanded our product line with the addition of fully automated table games, known as e-Tables and separately, we entered into agreements to license our content for use by internet gaming operators. Casinos use our proprietary products to enhance their gaming floor operations and improve their profitability, productivity and security, as well as offer popular cutting-edge gaming entertainment content and technology to their players. We market our products to land-based, riverboat and cruise ship gaming establishments and to internet gaming companies. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. We market our products primarily via our internal sales force to casinos throughout North America, the Caribbean, the British Isles, Europe, Australia and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 3,000 gaming tables located in over 500 casinos, which positions us as the second largest provider of proprietary table games in the world.

Revenues consist of primarily recurring royalties received from our clients for the licensing of our game content and other products. These recurring revenues generally have few direct costs thereby generating high gross profit margins. In lieu of reporting as *gross profit*, this amount would be comparable to *revenues less cost of ancillary products and assembled components* on our financial statements. Additionally, we receive non-recurring revenue from the sale of associated products.

We group our products into three product categories we classify as “Proprietary Table Games,” “Enhanced Table Systems” and “e-Tables.” Our product categories are summarized below. Additional information regarding our products may be found on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

Proprietary Table Games. We design, develop and deliver our Proprietary Table Games to enhance our casino clients’ table game operations. Casinos use our Proprietary Table Games in lieu of those games in the public domain (e.g.

Blackjack, Craps, Roulette, etc.) because of their popularity with players and to increase profitability. Our Proprietary Table Games are grouped into two product types we call “Side Bets” and “Premium Games.” Side Bets are proprietary features and wagering schemes typically added to public domain games such as poker, baccarat, pai gow poker, craps and blackjack table games. Examples of side bets include such popular titles as *Lucky Ladies*, *21+3* and *Bonus Craps*. Premium Games are unique stand-alone games with their own unique set of rules and strategies. Examples of Premium Games include such popular titles as *Texas Shootout*, *Three Card Poker* and *Emperor’s Challenge*. Typically, Premium Games command a higher price point per unit than Side Bets.

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Enhanced Table Systems. Enhanced Table Systems are electronic enhancements used on casino table games to add to player appeal and enhance game security. We include in this product category our *Bonus Jackpot System*, our *Inter-Casino Jackpot System* and our *MEGA-Share*.

Our *Bonus Jackpot System* is designed to compete with our competitors' progressive jackpot systems and contains special features designed to further enhance the table game player's experience and in turn, the casino's profit. The *Bonus Jackpot System* consists of two independent components known as the *Bet Tabulator System*, which is used to detect players' wagers and *TableVision*, which is an electronic display attached to a gaming table. Our current version of the *Bonus Jackpot System* is known as the "*Andromeda Series*." Advancements in the *Andromeda Series* includes the ability for two-way communication between gaming tables located anywhere in the world and one or more data processing centers. Currently known as our *Inter-Casino Jackpot System*, we believe this achievement for casino table games was the first of its kind in the world. The availability of the data processing centers is the result of an agreement we entered into with Amazon Web Services, a unit of Amazon.com. In addition, our clients may use our *Andromeda Series* to communicate with their data center or internal server using their private network. The *Andromeda Series* allows up to 16 player positions and 6 betting positions per player. The *Andromeda Series* was the first of its kind, allowing for the most sensors to be placed on a single gaming table. Through the *TableVision* component, the *Andromeda Series* includes the ability to keep track of and display more than one jackpot.

Our *Inter-Casino Jackpot System* leverages the capabilities of our *Bonus Jackpot System* to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network. This methodology often referred to as a "wide area progressive" has long been practiced in the slot machine industry, but was first introduced to table games in Nevada by us in April 2011.

MEGA-Share is a game play methodology invented by us that allows a player of one of our table games to share in the winnings of a jackpot together with other players. An example of this concept would be when multiple table game players are playing in a casino and one player obtains a winning hand entitling them to a jackpot, the event also triggers a second *MEGA-Share* jackpot that is divided among all players who placed a *MEGA-Share* qualifying wager. *MEGA-Share* rewards other players playing on other tables, other games, or even in other casinos with a share of a second jackpot simply for having a wager placed at the time another player won the main jackpot.

e-Tables. In February 2011, we entered into a definitive agreement to license the worldwide rights, excluding Oklahoma, Kentucky and the Caribbean, to the *TableMAX* e-Table system and simultaneously obtained the e-Table rights to the casino table games *Caribbean Stud*, *Caribbean Draw*, *Progressive Blackjack*, *Texas Hold'em Bonus* and *Blackjack Bullets*. See Note 16. The *TableMAX* e-Table system is a fully automated, multi-player electronic table game platform which does not need a human dealer. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. The e-Table product enables automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability.

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NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of our significant accounting policies is presented to assist in understanding our financial statements. The financial statements and notes are representations of our management team, who are responsible for their integrity and objectivity. These accounting policies conform to Generally Accepted Accounting Principles (“GAAP”) and have been consistently applied to the preparation of the financial statements.

Basis of presentation. The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained herein and in our Form 10-K filed with the SEC as of and for the period ended December 31, 2012. In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Basis of accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized as income when earned and expenses are recognized when they are incurred. We do not have significant categories of cost as our income is recurring with high margins. Expenses such as wages, consulting expenses, legal, regulatory and professional fees and rent are recorded when the expense is incurred.

Cash and cash equivalents. We consider cash on hand, cash in banks, certificates of deposit, and other short-term securities with maturities of three months or less when purchased, as cash and cash equivalents. Our bank accounts are deposited in insured institutions. The funds are insured up to \$250,000 per account. To date, we have not experienced uninsured losses.

Restricted cash. We are required by gaming regulation to maintain sufficient reserves in restricted accounts to be used for the purpose of funding payments to winners of our jackpots offered. Compliance with restricted cash requirements for jackpot funding is reported to gaming authorities in various jurisdictions.

Inventory. Inventory consists of ancillary products such as signs, layouts, and bases for the various games and electronic devices and components to support our Enhanced Table Systems. Inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. We regularly assess inventory quantities for excess and obsolescence primarily based on forecasted product demand. See Note 5.

Products leased and held for lease. We provide products whereby we maintain ownership and charge a fee for the use of the product. Since we retain title to the equipment, we classify these assets as “products leased and held for lease” and they are shown on the accompanying balance sheets. These assets are stated at cost, net of depreciation. Depreciation on leased products is calculated using the straight-line method over a three year period.

Property and equipment. Property and equipment are being depreciated over their estimated useful lives, 3 to 5 years, using the straight-line method of depreciation for book purposes.

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Intellectual property and intangible assets. These intellectual property and intangible assets have finite lives and are being amortized using the straight-line method over their economic useful lives, five to thirty years. Material assets added over the past several years are as follows:

Client installation base	60 months
Patents	87 - 132 months
Trademarks	144 – 360 months
Client relationships	264 months

The intangible assets are analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill. A goodwill balance of \$1,091,000 was created as a result of the PTG asset acquisition. This asset will be assessed for impairment at least annually and if found to be impaired, its carrying amount will be reduced and an impairment loss will be recognized.

Impairment of long-lived assets. We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Fair value of financial instruments. The fair value of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses, other current assets, inventory, notes receivable-related party, deferred tax assets, accounts payable, accrued expenses, deferred revenue, jackpot liabilities and notes payable approximates the carrying amount of these financial instruments due to their short-term nature. The fair value of long-term debt, which approximates its carrying value, is based on current rates at which we could borrow funds with similar remaining maturities.

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. As of the six months ended June 30, 2013 and 2012 we had revenues from one client account for 14.9% and 11.1% of total revenues, respectively. The amounts in accounts receivable related to this significant client at June 30, 2013 and 2012 was approximately \$140,000 and \$92,000, respectively

Revenue recognition. Revenue is primarily derived from the licensing of our products and intellectual property. Consistent with our strategy, revenue is generated from negotiated month-to-month recurring licensing fees

or the performance of our products, or both. We also, occasionally, receive a one-time sale of certain products and/or reimbursement of our manufactured equipment.

Substantially, all revenue is recognized when it is earned. Depending upon the product and negotiated terms, our clients may be invoiced monthly in advance, monthly in arrears or quarterly in arrears for the licensing of our products. If billed in advance, the advance billings are recorded as deferred revenue on our balance sheet. If billed in arrears, we recognize the corresponding preceding period's revenue upon invoicing at the subsequent date. Generally, we begin earning revenue with the installation or "go live" date of the associated product in our clients' establishment. The monthly recurring invoices are based on executed agreements with each client.

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Additionally, clients may be invoiced for product sales at the time of shipment or delivery of the product. Revenue from the sale of our associated products is recognized when the following criteria are met:

- Persuasive evidence of an arrangement between us and our client exists;
- Shipment has occurred;
- The price is fixed and or determinable; and
- Collectability is reasonably assured or probable.

The combination of hardware and software included in our Enhanced Table Systems and e-Tables are essential to the operation of the respective systems. As such, we do not segregate the portion of revenue between manufactured equipment and any software or electronic devices needed to use the equipment when the system is provided. We do not market the software separately from the equipment.

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

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

Foreign currency translation. For non-US functional accounts, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income and expense accounts at the average exchange rates for the year. Resulting currency translation adjustments are recorded as a separate component of shareholders' equity. We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses being included in results of operations. Realized foreign currency transaction gains and losses have not been significant for any period presented.

Income taxes. We record deferred tax assets and liabilities based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. We reduce deferred tax assets by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

Our provision for income taxes includes interest and penalties related to uncertain tax positions. We only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Basic income (loss) per share. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares issued and outstanding during the year. Diluted earnings per share is similar to basic, except that the weighted average number of shares outstanding is increased by the potentially dilutive effect of outstanding stock options and warrants, if applicable, during the year, using the treasury stock method.

Stock-based compensation. We measure and recognize all stock-based compensation, including restricted stock and stock-based awards to employees, under the fair value method. We measure the fair value of stock-based awards using the Black-Scholes model and restricted shares using the grant date fair value of the stock. Compensation is attributed to the periods of associated service and such expense is recognized on a straight-line basis over the vesting period of the awards. Forfeitures are estimated at the time of grant, with such estimate updated when the expected forfeiture rate changes.

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

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

Recently adopted accounting standards - adopted

Comprehensive income. In June 2011, the FASB issued an Accounting Standards Update (“ASU”) that eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and now requires an entity to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also required companies to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income, but in December 2011, the FASB issued an ASU that deferred this requirement. The guidance became effective for fiscal years beginning after December 15, 2011. We adopted the provisions of the guidance in 2012 and elected to present items of net income and other comprehensive income in two separate but consecutive statements.

Qualitative impairment assessment for goodwill and other indefinite-lived intangibles. In July 2012, the FASB issued an ASU that gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. This guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted the provisions of the guidance on January 1, 2013. The adoption of the guidance did not have a material impact on our financial statements.

NOTE 3. NOTE RECEIVABLE – RELATED PARTY

The note receivable balance was as follows:

	June 30, 2013	December 31, 2012
Note receivable	\$384,084	\$388,261
Less: current portion	(17,675)	(17,155)

Total long-term note receivable \$366,409 \$371,106

A note receivable was acquired as part of the 2007 asset purchase agreement with GLLC. The note receivable is a ten year unsecured note with a 6% fixed interest rate, monthly principal and interest payments of \$6,598 with the unpaid principal and interest due in February 2017. The terms of the note were amended in September 2010 whereby the monthly principal and interest payment was reduced to \$3,332 and the unpaid principal and interest is due August 2015.

Interest income associated with this note receivable was \$11,560 and \$12,020 for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2012, there was an interest receivable balance of \$5,740 which is included in other current assets.

Management evaluates collectability on a regular basis and will set up reserves for uncollectible amounts when it has determined that some or all of this receivable may be uncollectible. At June 30, 2013 and December 31, 2012, management believed that 100% of the note receivable principal and interest amounts are collectable.

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Prepaid expenses consisted of the following at:

	June 30, 2013	December 31, 2012
Trade show expense	\$22,773	\$4,520
IT system	20,524	9,065
Professional services	11,141	3,000
Other prepaid expenses	9,159	2,757
Insurance	8,691	8,096
Inventory costs	2,520	2,005
Total prepaid expenses	\$74,808	\$29,443

NOTE 5. INVENTORY

Inventory consisted of the following at:

	June 30, 2013	December 31, 2012
Raw materials and component parts	\$185,460	\$109,637
Finished goods	92,790	80,291
Work-in-process	77,026	60,739
Subtotal	355,276	250,667
Less: inventory reserve	(32,895)	(32,895)
Total inventory	\$322,381	\$217,772

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, consisted of the following at:

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	June 30, 2013	December 31, 2012
Computer equipment	\$67,914	\$51,516
Furniture and fixtures	73,771	73,772
Office equipment	12,270	10,320
Leasehold improvements	6,367	6,367
	160,322	141,975
Less: accumulated depreciation	(107,954)	(98,576)
	\$52,368	\$43,399

Included in depreciation expense was \$9,378 and \$8,873 for the six months ended June 30, 2013 and 2012, respectively.

NOTE 7. PRODUCTS LEASED AND HELD FOR LEASE

Products leased and held for lease consisted of the following at:

	June 30, 2013	December 31, 2012
Enhanced table systems	\$126,471	\$98,573
Less: accumulated depreciation	(61,390)	(51,140)
Products leased and held for lease, net	\$65,081	\$47,433

Included in depreciation expense was \$10,251 and \$22,694 related to products leased and held for lease for the six months ended June 30, 2013 and 2012, respectively.

Table of Contents**NOTE 8. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS**

Intellectual property and intangible assets consisted of the following at:

	June 30, 2013	December 31, 2012
Intellectual property	\$16,355,967	\$16,355,967
Territory	150,000	150,000
Non-compete	660,000	660,000
Customer relationships	3,400,000	3,400,000
	20,565,967	20,565,967
Less: Accumulated amortization	(2,810,003)	(2,015,551)
	\$17,755,964	\$18,550,416

Amortization expense was \$794,452 and \$786,347 for the six months ended June 30, 2013 and 2012, respectively.

Included in intangible assets at June 30, 2013 and December 31, 2012 are other intangible assets of \$150,000. This amount relates to the 2008 purchase of a regional territory from an outside sales representative. The total value of this agreement was \$150,000 and the resulting intangible asset has an infinite life.

In October 2011, we acquired the following intangible assets related to the asset purchase with Prime Table Games:

	Fair Value
Patents	\$13,259,000
Customer relationships	3,400,000
Trademarks	2,740,000
Goodwill	1,091,000
Non-compete agreement	660,000
Total	\$21,150,000

NOTE 9. ACCRUED EXPENSES

Accrued expenses, consisted of the following at:

	June 30, 2013	December 31, 2012
Commissions	\$67,388	\$67,026
Salaries & payroll taxes	64,585	65,052
Vacation	60,815	50,949
Trade show expenses	15,601	—
Professional fees	2,500	63,510
Accrued interest	2,474	2,505
Other accrued expenses	—	2,692
Total accrued expenses	\$213,363	\$251,734

Table of Contents**NOTE 10. NOTES PAYABLE**

Notes payable consists of the following at:

	June 30, 2013	December 31, 2012
Note payable – related party	\$1,109,191	\$1,122,915
Notes payable, net of debt discount - PTG	17,868,131	19,488,879
	18,977,322	20,611,794
Less: Current portion	(2,547,079)	(2,360,930)
	\$16,430,243	\$18,250,864

The note payable – related party requires monthly principal and interest payments of \$9,159, at a fixed interest rate of 7.3% through February 2017, at which time there is a balloon payment due of \$1,003,000. This note payable is a result of the asset purchase agreement with GLLC and under the direction of GLLC, the payments were to be made on GLLC’s behalf directly to Bank of America. As of August 1, 2013, GLLC directed us to begin making payments to Carpathia Associates, LLC (“Carpathia”), an entity related to our CEO. The note agreement remains in the name of GLLC and we have no direct obligation to Bank of America. The note payable between GLLC and Bank of America is the subject of litigation. See Note 11 in Item 8. “Financial Statements and Supplementary Data” included in our annual report on Form 10-K for the year ended December 31, 2012

In October 2011, we closed an asset acquisition with Prime Table Games. Included within the structure of the \$23 million acquisition was a \$22.2 million component consisting of two promissory notes: 1) a note payable for \$12.2 million, and 2) a note payable for £6.4 million (\$10.0 million USD) note. The notes were recorded at fair value, net of a debt discount of \$1,530,000.

Maturities our notes payable are as follows:

Maturities as of June 30,	Total
2014	\$2,547,079
2015	3,118,755
2016	3,777,881
2017	5,227,662
2018	4,478,502
Thereafter	992,337
Total notes payable	\$20,142,216
Less: debt discount	(1,164,894)
Notes payable, net of debt discount	\$18,977,322

Table of Contents**NOTE 11. COMMITMENTS AND CONTINGENCIES**

Operating lease obligations. We lease our offices from a related party that is connected with our CEO. We entered into a lease effective September 1, 2010 for a period of two years with a monthly rental payment of \$10,359. Our lease expired at the end of August 2012 and is currently on a term of month-to-month. In addition to our offices, we rent various temporary storage facilities in the range of \$150 to \$460 a month. All temporary facilities have rental agreements with a monthly term. Total rent expense was \$81,746 and \$76,986 for the six months ended June 30, 2013 and 2012, respectively.

Based upon our current growth projections, we anticipate either renewing our existing lease agreement and/or expanding our operations with a lease of a second office, or in the alternative, we may elect to not renew our existing lease and seek an entirely new facility sometime in 2013. The amounts shown in the accompanying table reflect our estimates of lease obligations for the twelve months ending 2013 through 2018 and are based upon our current estimates of our projected needs and our forecast of the commercial real estate market in Las Vegas. These estimates are summarized as follows:

Twelve Months Ended June 30,	Annual Obligation (Estimate)
2014	\$196,728
2015	224,100
2016	235,305
2017	247,068
2018	253,170
Thereafter	873,786
Total Estimated Lease Obligations	\$2,030,157

Legal proceedings. In the ordinary course of conducting our business, we are, from time to time, involved in various legal proceedings, administrative proceedings, regulatory government investigations and other matters, including those in which we are a plaintiff, that are complex in nature and have outcomes that are difficult to predict. In accordance with topic ASC Topic 450, we record accruals for such contingencies to the extent that we conclude that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. Our assessment of each matter may change based on future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on our business operations, intellectual property, results of operations or financial position. Unless otherwise expressly stated, we believe costs associated with litigation will not have a material impact on our financial position or liquidity, but may be material to the results of operations in any given period. We assume no obligation to update the status of pending litigation, except as may be required by applicable law, statute or regulation. For a complete description of the facts and circumstances surrounding material litigation to which we are a party, see Note 11 in Item 8. "Financial Statements and Supplementary Data" included in our annual report on Form 10-K for the year ended December 31, 2012. There are no material updates to matters previously reported on Form 10-K for the year ended December 31, 2012, except:

California administrative licensing action – In March 2003, Galaxy Gaming of California, LLC (“GGCA”), an independent entity managed by GGLLC, submitted an application to the California Gambling Control Commission (the “Commission”) for a determination of suitability for licensure to do business with tribal gaming operations in California. At the time, our CEO was a member of GGCA and was required to be included in the application process. On July 11, 2013 we received notice that the California Gambling Control Commission (“Commission”) denied the applications of our CEO and GGCA for a finding of suitability (the “Finding”). The Commission then denied a request for stay or any further reconsideration of the matter on July 25, 2013.

As a result of this decision, the Department of Justice of the State of California, on August 1, 2013, issued a letter returning our application for a Finding of Suitability, declining to process our corporate application in California as well.

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On August 9, 2013, GGCA and Mr. Saucier filed and served a petition for writ of mandate with the Sacramento County Superior Court, asking the Court to issue a writ directing the Commission to find GGCA and Mr. Saucier suitable. There can be no assurances that the judicial review will be successful or that our CEO will be found suitable. The Finding against Mr. Saucier, as demonstrated by the return of our application by the Department of Justice of the State of California, has and will subject us to certain increased, material, known and unknown risks and uncertainties of materially adverse effects on our business and/or prospects, including possible restrictions against us from doing business in California (and possibly other states). Please see the form 8-K, filed by us on July 30, 2013 for further details regarding these risks.

Bank of America action. In October 2012, we were served with a complaint by Bank of America (“BofA”) regarding a promissory note payable between GGLLC and BofA. See Note 10 and Note 13. The complaint, filed in the Eighth Judicial District Court in the State of Nevada, alleges we received valuable assets from GGLLC in 2007 for little or no consideration. In the complaint, BofA seeks to collect in full the outstanding principal and any accrued interest owed under the promissory note.

Note 12. STOCKHOLDERS’ EQUITY

We had 65,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock authorized as of June 30, 2013.

In March 2012, our Board of Directors approved a stock grant for a small group of employees that granted 802,500 shares of restricted common stock valued at \$0.10 per share.

There were 38,310,591 common shares and no preferred shares issued and outstanding at June 30, 2013.

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Note 13. Related Party Transactions

We lease our offices from the Saucier Business Trust, an entity that is related to our CEO. The lease was entered into effective September 1, 2010 for a period of two years requiring a monthly rental payment of \$10,359. Our lease expired at the end of August 2012 and is currently on a term of month-to-month. Total payments made to this related party was \$62,159 for each six month period ended June 30, 2013 and 2012. The Saucier Business Trust filed for bankruptcy on May 2, 2013 (the "Bankruptcy"), however it is not expected the Bankruptcy will have a direct impact on our tenancy.

We have a note receivable from Abyss, LLC, an entity that is related to our CEO. This note receivable was acquired as part of the 2007 asset purchase agreement with GLLC. The note receivable is a ten year unsecured note with a 6% fixed interest rate, monthly principal and interest payments of \$6,598 with the unpaid principal and interest due in February 2017. The terms of the note were amended whereby the monthly principal and interest payment was reduced to \$3,332 and the unpaid principal and interest is due August 2015. The balance as of the six month period ended June 30, 2013 and 2012 were \$384,084 and \$399,323, respectively. Interest income associated with this note receivable was \$11,560 and \$10,570 for the six month period ended June 30, 2013 and 2012, respectively.

We have a note payable to a related party, GLLC, an entity that is controlled by our CEO. The note payable required monthly principal and interest payments of \$9,159, at a fixed interest rate of 7.3% through February 2017, at which time there is a balloon payment due of \$1,003,000. This note payable is a result of the asset purchase agreement with GLLC and under the direction of GLLC the payments were to be made on GLLC's behalf directly to Bank of America. As of August 1, 2013, GLLC directed us to begin making payments to Carpathia Associates, LLC ("Carpathia"), an entity related to our CEO. The note agreement remains in the name of GLLC and we have no direct obligation to Bank of America. Additionally, Bank of America has filed a complaint against us. See Note 11 for further details.

Certain administrative, accounting and legal support services are performed by Carpathia. We accrued or paid fees to the related party in the amount of \$3,105 and \$14,550 for the six months ended June 30, 2013 and 2012, respectively.

NOTE 14. INCOME TAXES

Our forecasted effective tax rate at June 30, 2013 is 37.6%, a 37.6% increase from the 0.0% effective tax rate recorded at June 30, 2012. After discrete benefit of 5.7%, the effective tax rate for the six months ending June 30, 2013 is 31.9%. The discrete benefit is primarily attributable to the recognition of state net operating losses.

Table of Contents**Note 15. Stock Warrants and Options**

Warrant activity. We have accounted for warrants as equity instruments in accordance with *EITF 00-19 (ASC 815-40) Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and as such, will be classified in stockholders' equity as they meet the definition of "...indexed to the issuer's stock" in *EITF 01-06 (ASC 815-40) The Meaning of Indexed to a Company's Own Stock*. In prior years, we estimated the fair value of the warrants using the Black-Scholes option pricing model based on assumptions at the time of issuance.

A summary of current warrant activity is as follows:

	Common Stock Warrants	Weighted Average Exercise Price
Outstanding – January 1, 2012	2,017,382	\$ 0.43
Issued	—	—
Exercised	—	—
Expired	(686,429)	0.40
Outstanding – December 31, 2012	1,330,953	0.45
Issued	—	—
Exercised	—	—
Expired	(714,286)	0.40
Outstanding – June 30, 2013	616,667	\$ 0.51
Exercisable – June 30, 2013	—	—

Stock options. For the six months ended June 30, 2013 and 2012, we issued -0- and 138,750 stock options, respectively. Stock options issued to members of our Board of Directors were -0- and 138,750 for the six months ended June 30, 2013 and 2012, respectively. For our Board of Directors, the stock options were valued at the fair market value of the services performed that resulted in an expense of \$16,000 for the six months ended June 30, 2012.

In July 2012, we issued our Chief Financial Officer 100,000 stock options at an exercise price equal to the closing price of our common stock on the trading day prior to the grant date (\$0.25). The stock options granted were calculated to have a fair value of \$17,415 using the Black-Scholes option pricing model with the following assumptions:

Options issued year ended

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	December 31, 2012
Dividend yield	0%
Expected volatility	118%
Risk free interest rate	0.33%
Expected life (years)	3.00

The cost of the options issued to the members of our Board of Directors and our Chief Financial Officer have been classified as share based compensation for the six months ended June 30, 2013 and 2012, respectively.

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A summary of stock option activity is as follows:

	Common Stock Options	Weighted Average Exercise Price
Outstanding – January 1, 2012	615,000	\$ 0.43
Issued	285,000	0.40
Exercised	—	—
Expired	(800,000)	—
Outstanding – December 31, 2012	100,000	0.45
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding – June 30, 2013	100,000	\$ 0.45
Exercisable – June 30, 2013	—	—

Note 16. Asset AcquisitionS AND SIGNIFICANT TRANSACTIONS

Acquisition of Prime Table Games' assets. In October 2011, we executed an asset purchase agreement (the "PTG Agreement") with Prime Table Games LLC and Prime Table Games UK (collectively "Prime Table Games"). Under the terms of the PTG Agreement we acquired over 20 different table games, including *21+3*, *Two-way Hold'em* and *Three Card Poker* which are currently played on approximately 500 tables in 200 casinos in the United States, the United Kingdom and in the Caribbean (*Three Card Poker* rights are limited to the British Isles). The intellectual property portfolio includes 36 patents, 11 patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. The two principals of Prime Table Games also executed with us a non-compete agreement.

We accounted for the asset purchase as a business combination using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the purchase date and be recorded on the balance sheet regardless of the likelihood of success of the related product or technology. The process for estimating the fair values of identifiable intangible assets involves the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. Transaction costs are not included as a component of consideration transferred and were expensed as incurred.

Consideration transferred. The acquisition-date fair value of the consideration transferred consisted of the following items:

Common stock – 2,000,000 shares	\$480,000
Note payable – Prime Table Games LLC	12,200,000

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Note payable – Prime Table Games UK	10,000,000
Total	\$22,680,000

The note payable to Prime Table Games UK is in the amount of £6,400,000 (GBP). At the closing of the acquisition, the parties agreed to a conversion rate of one United States Dollar is equal to 64/100 British Pound Sterling, (\$1.00USD = £0.64GBP). Interest on the promissory notes was 0% in 2011. The fair value of the notes, net of the debt discount was \$20,670,000. The rate increases to 3% in 2012 and increases at 1% per year thereafter to maximum of 9%. Payments on each of the notes are as follows:

Prime Table Games LLC. Monthly payments are due under this note, commencing with \$100,000 due on or before January 28, 2012. Subsequent payments are due on the 28th day of each month and the payment amount shall increase to \$130,000 per month beginning 16 months after the closing, \$160,000 per month beginning in 28 months, \$190,000 per month beginning in 40 months and \$220,000 beginning in 52 months until fully paid.

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Prime Table Games UK. Monthly payments are due under this note, commencing with £64,000 due on or before January 28, 2012. Subsequent payments are due on the 28th day of each month and the payment amount shall increase to £76,800 per month beginning 16 months after the closing, £89,600 per month beginning in 28 months, £102,400 per month beginning in 40 months, £115,200 per month in 52 months until fully paid.

In the event future monthly revenue received by us from the “Assets,” as defined in the Prime Agreement is less than 90% of the notes monthly payment due to Prime Table Games, then the note payments may, at our option, be adjusted to the higher of \$100,000 per month (for the Prime Table Games LLC note) and £64,000 per month (for the Prime Table Games UK note) or 90% of the monthly revenue amount. If we engage in this payment adjustment election, the note shall not be deemed in default and the interest rate of the note will increase 2% per annum for the duration of the note or until the standard payment schedule resumes.

The notes are collateralized by the all of the assets acquired from Prime Table Games LLC and Prime Table Games UK.

Fair value estimate of assets acquired and liabilities assumed. The total purchase consideration is allocated to Prime Table Games intangible assets based on their estimated fair values as of the closing date. The allocation of the total purchase price to the net assets acquired is as follows:

Patents	\$ 13,259,000
Customer relationships	3,400,000
Trademarks	2,740,000
Debt discount	1,530,000
Goodwill	1,091,000
Non-compete agreement	660,000
Total	\$22,680,000

TableMAX agreement. In February 2011, we entered into a definitive agreement (“TMAX Agreement”) with TableMAX Corporation (“TMAX”) a provider of electronic table games and platforms headquartered in Las Vegas, Nevada and a principal investor in TMAX. Under the terms of the TMAX Agreement, we have exclusive worldwide rights (excluding one international territory and two U.S. states) to the TMAX electronic gaming platform and certain game titles. We created an operating division (the “TableMAX Division”) for the purpose of conducting sales, distribution, marketing, engineering, sub-licensing and manufacturing related to the TMAX products and related intellectual property. The TableMAX Division is wholly owned by us and is not considered owned by, related to, a joint venture partner of or an agent of TMAX in any manner. The term of the TMAX Agreement is five years. At any time during the term of the TMAX Agreement, either TMAX or we may make a written offer to purchase the sole ownership of the TableMAX Division. Such offer shall be subject to the parties’ mutual agreement and neither party shall be under any obligation to accept such an offer. If such an agreement has not been consummated within six months of the expiration of the TMAX Agreement, then each party must indicate to the other party no later than six months from the scheduled expiration of the TMAX Agreement, their intent to renew the TMAX Agreement for a term of at least one year, or terminate.

TMAX assigned, for the term of the TMAX Agreement, all of its existing gaming installations to the TableMAX Division. We agreed to furnish our intellectual property relating to our table game content for use by the TableMAX Division, royalty-free for the term of the TMAX Agreement. The TMAX Agreement specifies annual performance targets whereby we are required, on a cumulative basis, to have minimum table placements. If we fail to meet the performance criteria as defined in the TMAX Agreement, we will be required to pay TMAX the difference between TMAX's share of the actual profit obtained by the TableMAX Division and the estimated profit that would have been obtained if the minimum performance criteria had been obtained.

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We are responsible for the losses of the TableMAX Division however, TMAX agreed to reimburse us during the first 12 months from the date of the TMAX Agreement for operating expenses of the TableMAX Division up to a maximum of \$600,000. Subsequent to the 12 months anniversary of the TMAX Agreement, TMAX notified us that they would continue to reimburse us for the losses attributed with the TableMAX Division through December 31, 2012. Net profits from the TableMAX Division will be split between TMAX and us on a sliding scale basis dependent upon the number of TableMAX Division table installations and profit results as defined in the TMAX Agreement. While TMAX has not agreed to reimbursement of losses subsequent to December 31, 2012, we have not experienced significant losses attributable to the TableMAX Division.

Included in other current assets at June 30, 2013 is \$38,925, representing reimbursement due from TMAX.

Note 17. Subsequent Events

California administrative licensing action update On July 11, 2013 we received notice that the California Gambling Control Commission (Commission) denied the applications of our CEO Robert Saucier and related party Galaxy Gaming of California, LLC (GGCA) for a finding of suitability (the Finding). The Commission's decision related to Mr. Saucier personally, and GGCA, which is a predecessor entity to our Company. The Commission confirmed in a letter dated July 25, 2013 that it would not issue a stay or reconsider the matter further.

As a result of this decision, the Department of Justice of the State of California, on August 1, 2013, issued a letter returning our application for a Finding of Suitability, declining to process our corporate application in California as well.

On August 9, 2013, GGCA and Mr. Saucier filed and served a petition for writ of mandate with the Sacramento County Superior Court, asking the Court to issue a writ directing the Commission to find GGCA and Mr. Saucier suitable. There can be no assurances that the judicial review will be successful or that our CEO will be found suitable. The Finding against Mr. Saucier, as demonstrated by the return of our application by the Department of Justice of the State of California, has and will subject us to certain increased, material, known and unknown risks and uncertainties of materially adverse effects on our business and/or prospects, including possible restrictions against us from doing business in California (and possibly other states). We are currently having discussions with various regulators as to the options available to us.

In accordance with ASC 855-10, we have analyzed our operations subsequent to June 30, 2013 to the date these financial statements were issued, and have determined that we do not have any material subsequent events to disclose in these financial statements, other than the events discussed above.

Table of Contents**NOTE 18. CORRECTION OF ERRORS AND RESTATEMENTS**

We have restated our ending balances for June 30, 2012, as well as the balance sheet and statement of cash flows for June 30, 2012 to correct an error in our accounting. The error relates to an adjustment for foreign currency translation of the notes payable balance to Prime Table Games UK, which is recorded in the functional currency pound sterling. The adjustment records an unrealized translation adjustment to the accumulated other comprehensive income (loss) account. There was no effect on the statement of operations.

The following are the previous and corrected balances for the period ended June 30, 2012:

June 30, 2012 Financial Statements	Line Item	Corrected	Previously Stated
Balance Sheet	Notes payable, current portion	2,074,693	2,071,080
Balance Sheet	Notes payable, net of debt discount, net of current portion	19,038,821	18,992,698
Balance Sheet	Total liabilities	22,248,190	22,198,454
Balance Sheet	Accumulated other comprehensive (loss)	(49,736)	—
Balance Sheet	Total shareholders' equity	203,662	253,398
Statement of Cash Flows	Net cash provided by operating activities	902,419	872,046
Statement of Cash Flows	Net cash used in investing activities	(7,383)	(5,570)
Statement of Cash Flows	Net cash used in financing activities	(911,613)	(859,455)
Statement of Cash Flows	Non-cash investing and financing activities:		
	Effect of exchange rate on note payable in foreign currency	192,522	—

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Item 2. Management’s Discussion and Analysis OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

We develop, acquire, manufacture and market technology and entertainment-based products for the gaming industry for placement on the casino floor. Our products primarily relate to licensed casino operators’ table games activities and focus on either increasing their profitability, productivity and security or expanding their gaming entertainment offerings in the form of proprietary table games, electronically enhanced table game platforms or fully-automated electronic tables. Our products are offered in highly regulated markets throughout the world. Our products are manufactured at our headquarters and manufacturing facility in Las Vegas, Nevada, as well as outsourced for certain sub-assemblies in the United States.

Additional information regarding our products and product categories may be found in Note 1 “Description of Business” in Item 1 “Financial Statements” included in this Form 10-Q and on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

Strategy. Our long-term business strategy is designed to capitalize on the opportunities we perceive within the gaming industry. We are an experienced developer of proprietary table games but a relative newcomer to developing and providing advanced electronic table game platforms and e-Tables. Throughout our history, we have been focused on

creating and expanding our base of recurring revenues that we earn on a monthly basis. Our plan is to continue to increase the recurring revenues we receive by employing the following strategies:

1. Expand our inventory of products and technologies to attain a fully comprehensive portfolio;
2. Increase our per unit price point by leveraging our Enhanced Table Systems; and
3. Grow our e-Table business.

Expand our inventory of products and technologies to attain a fully comprehensive portfolio. Historically, only one company in the table game industry, SHFL Entertainment, Inc. has had the ability to offer casinos nearly all of the table game products they require. Their unique ability to offer numerous products both in terms of game content and what they term as “utility” products (e.g. card shufflers, smart dealing shoes, baccarat displays, etc.), has stifled competition from other companies, including us, who are disadvantaged without a complete product line offering. Our strategy is to be an alternative for casino operators by offering a complete and comprehensive portfolio of games, products, systems, technologies and methodologies for casino table games. If we achieve this objective, we intend to offer complete turn-key systems rather than compete solely as a purveyor of individual products only. We intend to continuously develop and/or seek to acquire new proprietary table games to complement our existing offerings and to extend our penetration of proprietary table games on the casino floor. We expect to accomplish this strategic shift through internal development of products as well as continued acquisitions from others.

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Our first preference is to develop internally our products and intellectual property. Our CEO works closely with our engineering team to develop new cutting-edge table game content and ancillary products. Together they have been responsible for the continued development of our Proprietary Table Games and Enhanced Table Systems. We intend to further expand our product line including so-called “utility” products now offered by our competitors through our continued research, design, development and engineering efforts.

In addition, we are constantly seeking to acquire marketable products developed by others. In 2010, we acquired the *Deuces Wild Hold'em Fold'em* and *Random Wild* games and associated intellectual property from T&P Gaming, Inc. In October 2011 we acquired over 20 different table games, including *21+3*, *Two-way Hold'em* and *Three Card Poker* from Prime Table Games. Those games are currently played on approximately 500 tables in 200 casinos in the United States, the United Kingdom and in the Caribbean. Prime Table Games' intellectual property portfolio included 47 patents and patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. In November 2011, we acquired the table games *Bonus Craps*, *Four The Money*, *Rainbow Poker* and *Roulette Craps* together with nine patents, various trademarks and an assignment of existing licensing agreements with various casinos throughout the United States from Lakes Entertainment, Inc. In September 2012, we acquired the table game *High Card Flush* and all related patents and trademarks from Red Card Gaming, Inc.

We anticipate the continued acquisition and/or development of additional new proprietary table games and associate