

Galaxy Gaming, Inc.  
Form 10-K  
March 31, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

[X] ANNUAL REPORT  
UNDER SECTION  
13 OR 15(d) OF  
THE SECURITIES  
EXCHANGE ACT  
OF 1934

For the fiscal year  
ended **December 31,**  
**2013**

[ ] TRANSITION  
REPORT UNDER  
SECTION 13 OR  
15(d) OF THE  
SECURITIES  
EXCHANGE ACT

For the transition  
period from  
\_\_\_\_\_ to  
\_\_\_\_\_

Commission file  
number: **000-30653**

**Galaxy Gaming, Inc.**

(Exact name of registrant as  
specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-8143439**

(I.R.S. Employer Identification No.)

**6980 O'Bannon Drive,**

**Las Vegas, Nevada**

(Address of principal executive offices)

**89117**

(Zip Code)

Registrant's telephone number: **702-939-3254**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

**none**

Securities registered under Section 12(g) of the Exchange Act:

Title of each class

**Common Stock, par value \$0.001**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by checkmark 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 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 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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [ ] No [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. [ ]

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's second fiscal quarter was \$4,246,738.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 38,485,591 as of March 31, 2014.

Table of Contents

**GALAXY GAMING, INC.**

**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013**

**TABLE OF CONTENTS**

	Page
Forward Looking Statements	
<b>PART I</b>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	9
Item 2. <u>Properties</u>	9
Item 3. <u>Legal Proceedings</u>	9
Item 4. <u>Mine Safety Disclosures</u>	9
<b>PART II</b>	
Item 5. <u>Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
Item 6. <u>Selected Financial Data</u>	11
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	13
Item 8. <u>Financial Statements and Supplementary Data</u>	14
Item 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	36
Item 9A(T). <u>Controls and Procedures</u>	36
Item 9B. <u>Other Information</u>	36
<b>PART III</b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	37
Item 11. <u>Executive Compensation</u>	39
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	41
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	41
Item 14. <u>Principal Accountant Fees and Services</u>	41

**PART IV**

Item 15. Exhibits, Financial Statement Schedules

42

2

Table of Contents

Unless the context indicates otherwise, references to “Galaxy Gaming,” “we,” “us,” “our” or the “Company,” refers to Galaxy Gaming, Inc., a Nevada corporation, the company filing this report. Unless indicated otherwise, the terms and titles, “Chief Executive Officer,” “CEO,” “Chairman,” “Chairman of the Board” and “President” refers to Mr. Robert B. Saucier; “Chief Financial Officer,” “Secretary” and “Treasurer,” refers to Mr. Gary A. Vecchiarelli; “Board” refers to the Company’s board of directors.

**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.

**PART I**

**ITEM 1. BUSINESS**

**BUSINESS**

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

Galaxy Gaming is a Nevada corporation formed in December 2006. In 2007, we entered into several asset purchase agreements with Galaxy Gaming, LLC (“GGLLC”) related to selected assets, such as inventory, fixed assets, patents, patent applications, trademarks, trademark applications, copyrights and trade secrets of proprietary games, side bets, inventions and ideas related to the casino gaming industry. In addition to these tangible and intangible assets, we acquired the existing client and revenue base from GGLLC. We became a publicly traded company in 2009 as the result of a reverse merger with Secured Diversified Investment, Ltd. (“SDI”). See Note 1 in Part 8 for more information.

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 beginning in 2011, 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, Africa and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 3,700 gaming tables located in over 500 casinos, which positions us as the second largest provider of proprietary table games in the world.

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](http://www.galaxygaming.com). Information found on the web site should not be considered part of this report.

Table of Contents

*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. Premium Games are unique stand-alone Proprietary Table Games with their own unique set of rules and strategies. Generally, Premium Games generate higher revenue per table placement than the Side Bet games. Internally, we track revenue by each of our Proprietary Table Games. We do not internally track direct costs associated with the revenue of each of our proprietary casino games since it would require subjective allocations of common costs. Samplings of our Proprietary Table Games are listed below.

<b>Side Bets</b>	<b>Premium Games</b>
<i>21 Magic</i>	<i>Buffalo Blackjack Bonus</i>
<i>21+3 Classic Blackjack</i>	<i>Deuces Wild</i>
<i>21+3 Top 3 Blackjack</i>	<i>Emperor's Challenge</i>
<i>21+3 Xtreme Blackjack</i>	<i>Four the Money</i>
<i>All 6 for Three Card Poker</i>	<i>High Card Flush</i>
<i>Bonus Blackjack</i>	<i>Kokomo Stud</i>
<i>Bonus Craps</i>	<i>Player's Edge 21</i>
<i>Bust Bonus</i>	<i>Random Wild</i>
<i>Colors for Pai Gow Poker</i>	<i>Rainbow Poker</i>
<i>D-T Dice for Pai Gow Poker</i>	<i>Roulette Craps</i>
<i>Double Action Blackjack</i>	<i>Super 3 Poker</i>
<i>Double Match</i>	<i>Texas Shootout</i>
<i>Emperor's Treasure</i>	<i>Three Card Poker</i>
<i>JoKolor for Pai Gow Poker</i>	<i>Three Card Split</i>
<i>Lucky 8 Baccarat</i>	<i>Triple Attack Blackjack</i>
<i>Lucky Ladies</i>	<i>Two Way Hold'em Casino Poker</i>
<i>Pai Gow Insurance</i>	<i>World Poker Tour® Heads Up Hold'em</i>
<i>Prime for Three Card Poker</i>	<i>YES Dice</i>
<i>Poker 3 Bonus</i>	
<i>Quick Draw</i>	
<i>Share the Wealth</i>	
<i>Suited Royals</i>	
<i>Super Pairs</i>	
<i>Triple Match</i>	

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



*Enhanced Table Systems: Bonus Jackpot System.* The Bonus Jackpot System facilitates a jackpot players can win by making a qualified wager. The jackpot is awarded to a player (or players) upon obtaining a specific triggering event. Our Bonus Jackpot System allows for two-way communication between gaming tables located anywhere in the world using one or more data processing centers. We believe this achievement for casino table games was the first of its kind in the world. The worldwide availability of connecting tables has been made possible through an agreement we entered into with Amazon Web Services, a unit of Amazon.com.

The Bonus Jackpot System is an advanced electronic system installed on gaming tables that is used to detect players' wagers, evaluate game play, determine dealer efficiency and to assist in calculating jackpots and bonusing offerings. The Bonus Jackpot System also includes an electronic display system used on gaming tables to display game information to the players known as TableVision. Casinos use TableVision as an enhanced display to generate additional player interest and to promote various aspects of the game offered such as jackpots and bonusing programs. The Bonus Jackpot System allows the casino to seamlessly collect and process data and in turn, offer jackpots and other bonusing schemes to their players as determined by them using the data collected and processed.

The most current version of the Bonus Jackpot System is the Andromeda 4, which allows for sensors up to 16 player positions and up to 6 sensors per player position (maximum total of 96 data gathering points). Sensors can be placed discreetly under the felt or be an enhanced sensor with a multi-colored LED light. The enhanced sensors increase security and reliability while providing the player with a positive indication a wager has been recorded. Another feature of our Bonus Jackpot system is the ability to keep track of and display more than one jackpot. This ability, combined with the expansion of multiple sensors, permits us to offer a unique bonusing system called "MEGA-Share" to our casino clients.

*Enhanced Table Systems: Inter-Casino Jackpot System.* We leverage the abilities of our Bonus Jackpot System to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network. This methodology has long been practiced in the slot machine industry beginning with the introduction of IGT's Megabucks in the 1990's. These systems are referred to as "wide area progressives" and nearly every major slot machine manufacturer has a wide area progressive system. We developed our version of a wide area progressive jackpot system for table games that we call the Inter-Casino Jackpot System. Our preferred method of compensation is to collect a transaction fee from our casino clients based upon their player's participation in the Inter-Casino Jackpot System.

## Table of Contents

*Enhanced Table Systems: MEGA-Share.* 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 of them 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 made a MEGA-Share qualified wager. MEGA-Share rewards the other players playing on other tables, other games, or even other casinos with a share of the MEGA-Share jackpot, provided that they placed a qualifying MEGA-Share wager. We believe the Bonus Jackpot System and MEGA-Share may offer casinos an opportunity to significantly increase player interest, thereby increasing casino revenues and generating increased recurring revenue for us.

*e-Tables.* In 2011, we licensed the worldwide rights (excluding Oklahoma, Kentucky and the Caribbean) to the TableMAX e-Table system. Simultaneously we obtained e-Table rights to the casino table games *Caribbean Stud*, *Caribbean Draw*, *Progressive Blackjack*, *Texas Hold'em Bonus* and *Blackjack Bullets*. A description of this agreement is contained in Note 16 of Item 8. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms allow us to offer our table game content in markets where live table games are not permitted. Our e-Table product enables the 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.

Our revenues consist of primarily recurring royalties received from our clients for the licensing of our game content and other products. Typically over 95% of our total revenues are recurring. In 2013, recurring revenues represented 98% of our total revenues. These recurring revenues generally have few direct costs thereby generating high gross profit margins in excess of 90%. 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 as reimbursement from the sale of associated products.

A significant portion of the Company’s business is conducted with four large clients who operate numerous casinos throughout North American and the United Kingdom. Revenues from these significant clients accounted for approximately 33.5% and 32.1% of revenues in 2013 and 2012, respectively.

For more information about our revenues, operating income and assets, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” included in this Form 10-K.

## **STRATEGY**

We believe entertaining casino games will enhance players' experiences and generate brand loyalty, resulting in increased profits for our casino clients. We continue to expand our product offering by focusing on innovative products and services. As we continue to develop and enhance our brand names and reputation, we anticipate expanding to new product lines that complement our overall strategy and enhance our market presence.

Our long-term business strategy is designed to enhance client value by producing products players enjoy playing. We will enhance shareholder value by capitalizing on existing and emerging markets and the worldwide proliferation of gaming and continue to build our recurring revenues. To achieve both of these objectives, we employ 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, Bally Technologies, Inc. (formerly 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 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.

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. Since 2010, we have made six successful asset acquisitions. 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 700 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 March 2012, we acquired *Double Action Blackjack* as a result of a settlement with Unax

Service, LLC. In September 2012, we acquired *High Card Flush* from Red Card Gaming, Inc., which was awarded two awards: the 2012 Casino Journal's "Best New Table Game," as voted on by casino table game managers and "Best Traditional Table Game" as awarded by Casino Enterprise Management Magazine. In 2014, we acquired *Lucky Win Baccarat* to enhance our Baccarat game portfolio.

## Table of Contents

We anticipate the continued acquisition and/or development of additional new proprietary table games and associated intellectual property. When combined with our existing portfolio, new proprietary games will give us the comprehensive spectrum of products to offer casinos a complete solution, thereby increasing our competitiveness in the marketplace.

*Increase our per unit price point by leveraging our Enhanced Table Systems.* Our Enhanced Table Systems permit us the opportunity to significantly increase the amount of recurring revenue we receive from each table game placement. Accordingly, our goal is to concentrate on installing new game placements using one or more of our Enhanced Table Systems and to convert our existing Proprietary Table Game placements that currently do not incorporate our Enhanced Table Systems. We have modified most of our Premium Table Games and many of our Side Bets to benefit from the economics this new system affords us. In the future, we intend to be able to offer this platform for all games.

Additionally, we expect that most or all of our new Proprietary Table Games will include the Bonus Jackpot System component. The technology developed with the Bonus Jackpot System has allowed us to offer not only bonus jackpots and progressive jackpots, but also provides us the infrastructure to offer our Inter-Casino Jackpot System and MEGA-Share. We have identified jurisdictions where we may have the ability to offer this program and have commenced seeking the requisite approvals. In jurisdictions where our Inter-Casino Jackpot System is approved, we have increased our sales efforts towards connecting casinos together into a common jackpot system.

We invented the concept called MEGA-Share, which we first installed in December 2011. MEGA-Share and our Inter-Casino Jackpot System are unrelated but can be combined if so desired by our clients. A casino could operate either one or both simultaneously. We believe MEGA-Share has the ability to become a “must-have” product for casinos and as a result could be a significant contributor to our future revenue growth. Accordingly, we also intend to intensify our sales efforts on obtaining MEGA-Share placements.

*Grow our e-Table business.* Our TableMAX product line is developed for us by TableMAX Corporation. Having installed the majority of TableMAX e-Tables we received from TableMax Corporation, we are awaiting the next major release of the TableMAX e-Table, referred to as the “Model E.” In 2013, we were informed by TableMAX Corporation that the Model E’s development was completed. We acquired the requisite approvals for the Model E in 2013 and began to offering this product to gaming operators in 2014.

## **COMPETITION**

We compete with other gaming products and supply companies for space on the casino floor, as well as for our client’s capital spending. Our competition for casino placement and the attention of players comes from a variety of sources,

including companies that design and market proprietary table games, electronic table game platforms, e-Tables and other gaming products.

With respect to our Proprietary Table Games, we compete with several companies who primarily develop and license proprietary table games. Our competitors include, but are not limited to, Bally Technologies, DEQ Systems, TCS/John Huxley, and Masque Publishing. Competition in this product group is particularly based on price, brand recognition, player appeal and the strength of underlying intellectual property. Smaller developers and vendors are more able to participate in developing and marketing table games, compared to other gaming products, because of the lower cost and complexity associated with the development of these products and a generally less stringent regulatory environment. Larger competitors have superior capital resources, distribution and product inventory than we do. We compete on these bases, as well as on the strength of our extensive sales, service and distribution channels. We have been able to increase our placements of table games not only because of the general growth of casino gaming, but also by displacing other proprietary and public domain table game products.

With respect to our Enhanced Table Systems, we compete primarily with Bally Technologies and DEQ Systems. Bally Technologies has a progressive jackpot system it uses with its proprietary table games. DEQ Systems, which has limited game content, often uses its platform with other companies' games including ours and Bally Technologies.

## Table of Contents

With respect to our Inter-Casino Jackpot System, we compete primarily with Bally Technologies. We believe the methodology used by our Inter-Casino Jackpot System will likely become popular and as a result, we anticipate new competitors in the future.

With respect to our e-Table system, there are numerous other companies that manufacture and/or sell e-Tables that are similar. These companies include, but are not limited to, TCS/John Huxley, Aristocrat, Interblock, Aruze Gaming Corporation, Novomatic Industries, PokerTek, Inc. and Bally Technologies. Our e-Tables, as well as those of other companies, also compete for casino floor space with live table games and slots. One of our competitive strengths in this segment is the ability to offer our proprietary table game titles on e-Table platforms. In 2010, we entered into a royalty agreement with PokerTek, Inc. to license our game content whereby we would receive royalties for the use of our products if placed on their electronic platform. In 2013, we earned minimal royalties from this agreement. We anticipate we will receive minimal revenues from this agreement in 2014 as well.

Many of our competitors have longer operating histories, significantly greater resources, greater brand recognition and more firmly established supply relationships. Moreover, we expect additional competitors to emerge in the future. We believe that the principal competitive factors in our market include products that appeal to casinos and players, jurisdictional approvals and a well-developed sales and distribution network. Although we plan to compete effectively in this market, we recognize that this market is relatively new and is evolving rapidly, and accordingly, there can be no assurance that we will be able to compete effectively. We believe that our success will depend upon our ability to remain competitive in our field. We compete with others in efforts to obtain or create innovative products, obtain financing, acquire other gaming companies, and license and distribute products. The failure to compete successfully in the market for proprietary table games, electronic table game platforms and multi-casino jackpots could have a material adverse effect on our business.

We believe we have competitive advantages resulting from broad alliances and lengthy business relationships with our clients and an extensive intellectual property portfolio. Our historically high levels of customer service and support, worldwide name and brand recognition and geographic diversity are also competitive assets. We believe our reputation for consistently delivering and supporting quality products will encourage operators to select our products and enable us to maintain and create a substantial market position.

## **MANUFACTURING AND SUPPLIERS**

We obtain most of the parts for our products from third party suppliers, including both off-the-shelf items as well as components manufactured to our specifications. We also manufacture a small number of parts in-house that are used both for product assembly and for servicing existing products. We generally perform warehousing, quality control, final assembly and shipping ourselves from our facilities in Las Vegas, Nevada, although small inventories are maintained and repairs are performed by our field service employees. We believe that our sources of supply for

components and raw materials are adequate and that alternative sources of materials are available.

## **RESEARCH AND DEVELOPMENT**

While we are committed to growing the sales of our marketed products, we strive to maintain a robust pipeline of products under development to bring to market. We employ a staff of electrical, mechanical and software engineers, graphic artists and game developers to support, improve and upgrade our products and to develop and explore other potential table game products. We perform our research and development ourselves at our corporate offices. We may also use third party developers to conduct research and development for certain product offerings.

We believe that one of our strengths is identifying new product opportunities and developing new products. Therefore we expect to continue to spend a significant portion of our annual revenues on research and development, including the acquisition of intellectual property from third parties. We have incurred approximately \$467,000 and \$333,000 in research and development expenditures during 2013 and 2012, respectively. Consistent with our increased focus on development of new products, we anticipate increased research and development expenditures in 2014.

## **INTELLECTUAL PROPERTY**

Our products and the intellectual property associated with them are typically protected by patents, trademarks and copyrights. There can be no assurance that the steps we have taken to protect our intellectual property will be sufficient. In addition, the laws of some foreign countries do not protect intellectual property to the same extent as the laws of the United States, which could increase the likelihood of infringement. Furthermore, other companies could develop similar or superior products without violating our intellectual property rights. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome, disruptive and expensive, and distract the attention of management, and there can be no assurance that we would prevail.

We have been and are subject to litigation claiming that we have infringed the rights of others and/or that certain of our patents and other intellectual property are invalid or unenforceable. We have also brought actions against others to protect our rights. A description of certain of these matters is contained in Note 11 of Item 8 and incorporated herein by this reference.



Table of Contents

**GOVERNMENT REGULATION**

We are subject to regulation by governmental authorities in most jurisdictions in which we offer our products. The manufacturing and distribution of casino games, gaming equipment, systems technology, and related services, as well as the operation of casinos, is all subject to regulation by a variety of federal, state, international, tribal, and local agencies with the majority of oversight provided by individual state gaming control boards. While the regulatory requirements vary by jurisdiction, most require:

- Findings of suitability for the company, individual officers, directors, key employees and major shareholders
  - Documentation of qualification, including evidence of financial stability
  - Specific approvals for gaming equipment manufacturers and distributors
    - Licenses, registrations and/or permits

Gaming regulatory requirements vary from jurisdiction to jurisdiction, and obtaining licenses, registrations, findings of suitability for our officers, directors, and principal stockholders and other required approvals with respect to us, our personnel and our products are time consuming and expensive. Generally, gaming regulatory authorities have broad discretionary powers and may deny applications for or revoke approvals on any basis they deem reasonable. We have approvals that enable us to conduct our business in numerous jurisdictions, subject in each case to the conditions of the particular approvals. These conditions may include limitations as to the type of game or product we may sell or lease, as well as limitations on the type of facility, such as riverboats, and the territory within which we may operate, such as tribal nations. We have authorizations with certain Native American tribes throughout the United States whom have compacts with the states in which their tribal dominions are located or operate or propose to operate casinos. These tribes generally require suppliers of gaming and gaming-related equipment to obtain authorizations.

The nature of the industry and our worldwide operations make this process very time consuming and require extensive resources. We engage legal resources familiar with local customs in certain jurisdictions to assist in keeping us compliant with applicable regulations worldwide. Through this process, we seek to assure both regulators and investors that all our operations maintain the highest levels of integrity and avoid any appearance of impropriety.

Gaming laws and regulations serve to protect the public interest and ensure gambling related activity is conducted honestly, competitively, and free of corruption. Regulatory oversight additionally ensures that the local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions must demonstrate high levels of detail and integrity.

We have obtained or applied for all required government licenses, permits, registrations, findings of suitability, and approvals necessary to manufacture and distribute gaming products in all jurisdictions where we directly operate. Although many regulations at each level are similar or overlapping, we must satisfy all conditions individually for

each jurisdiction. We have never been denied a gaming related license, nor have our licenses ever been suspended or revoked.

*Gaming jurisdictions.* Gaming jurisdictions that have legalized gaming typically require various licenses, registrations, findings of suitability, permits, and approvals of manufacturers and distributors of gaming devices and equipment as well as licensure provisions related to changes in control. In general, such requirements involve restrictions and approvals. Additionally, we license and/or lease our products through licensed distributors. We offer our products throughout most of the United States, Canada, Caribbean, South Africa, United Kingdom and selected parts of Europe.

*Native American gaming regulation.* Gaming on Native American lands within the United States is governed by the Federal Indian Gaming Regulatory Act of 1988 ("IGRA") and specific tribal ordinances and regulations. Class III gaming, as defined under IGRA, also requires a Tribal-State Compact, which is a written agreement between a specific tribe and the respective state. This compact authorizes the type of Class III gaming activity and the standards, procedures and controls under which the Class III gaming activity must be conducted. The National Indian Gaming Commission ("NIGC") has oversight authority over gaming on Native American lands and generally monitors tribal gaming including the establishment and enforcement of required minimum internal control standards. Each tribe is sovereign and must have a tribal gaming commission or office established to regulate tribal gaming activity to ensure compliance with IGRA, NIGC, and its Tribal-State Compact. We have complied with each of the numerous vendors licensing and specific product approval and shipping notification requirements imposed by Tribal-State Compacts and enforced by tribal and/or state gaming agencies under IGRA in the Native American lands in which we do business.

*Application of future or additional regulatory requirements.* In the future we intend to seek the necessary registrations, licenses, approvals, and findings of suitability for us, our products, and our personnel in other jurisdictions throughout the world. However, we may be unable to obtain such necessary items, or if such items are obtained, may be revoked, suspended, or conditioned. In addition, we may be unable to obtain on a timely basis, or to obtain at all, the necessary approvals of our future products as they are developed, even in those jurisdictions in which we already have existing products licensed or approved. If the necessary regulations are not sought after or the required approvals not received, we may be prohibited from selling our products in that jurisdiction or may be required to sell our products through other licensed entities at a reduced profit.

Table of Contents

**EMPLOYEES**

We have nineteen employees, including executive officers, management personnel, accounting personnel, office staff, sales staff, service technicians and research and development personnel. Our employees are co-employed by Advanstaff, Inc. a professional employer organization engaged by us to provide payroll and human resource services. As needed from time to time, we also pay for the services of independent contractors.

**ITEM 1A. RISK FACTORS.**

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We do not own any real property used in the operation of our current business. We maintain our corporate office at 6980 O'Bannon Drive, Las Vegas, Nevada. We currently pay rent to a related party pursuant to a lease entered into effective in 2010 with a current monthly rental payment of \$10,359. We currently occupy 6,200 square feet and have executed a lease on a building approximately 24,000 square feet in size. See Note 11 in Item 8 for further details.

**ITEM 3. LEGAL PROCEEDINGS**

We have been named in and have brought lawsuits in the normal course of business. A description of these matters is contained in Note 11 in Item 8 and incorporated herein by this reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is quoted on the OTCQB marketplace ("OTCQB"), which has effectively replaced the OTC Bulletin Board as the primary market for SEC and bank reporting securities that trade off the exchanges. The OTCQB marketplace offers informed trading for securities of smaller or developing companies that are reporting to a U.S. regulator (SEC, Bank or Insurance). Our ticker symbol trades under the symbol GLXZ.

The following table sets forth the range of high and low closing sale prices for our common stock for each of the periods indicated as reported by the OTCQB.

<b>Quarter Ended</b>	<b>2013</b>		<b>2012</b>	
	<b>High (\$)</b>	<b>Low (\$)</b>	<b>High (\$)</b>	<b>Low (\$)</b>
December 31,	0.27	0.17	0.25	0.18
September 30,	0.29	0.20	0.26	0.16
June 30,	0.30	0.24	0.29	0.17
March 31,	0.27	0.19	0.28	0.13

### Table of Contents

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

### **HOLDERS OF OUR COMMON STOCK**

As of March 31, 2014, we had 38,485,591 shares of our common stock issued and outstanding, held by approximately 300 shareholders.

### **DIVIDEND POLICY**

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where after giving effect to the distribution of the dividend:

We would not be able to pay our debts as they become due in the usual course of business. Our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

We have not declared any dividends and we do not plan to declare any dividends in the foreseeable future.

#### **TRANSFER AGENT**

Our stock transfer agent and registrar is Empire Stock Transfer, Inc. located at 1859 Whitney Mesa Drive, Henderson, Nevada 89014. Their telephone number is (702) 818-5898.

#### **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

We have not yet adopted any formal equity compensation plans. In anticipation of establishing an equity compensation plan we:

On March 29, 2012, our Board agreed to an initial employee stock grant program which granted 802,500 shares to 12 different employees in various grant sizes.

As condition of his employment agreement, our Board granted options to Gary A. Vecchiarelli, our CFO to purchase 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the trading day prior to the grant date (\$0.25). Such options will vest over three years as follows: 33% on the first anniversary (July 1, 2013) and in equal monthly installments for the remaining 24 months.

As condition of a consulting agreement effective February 13, 2014, an independent contractor (the "Contractor") was granted 150,000 shares of the Company's restricted common stock. Of this amount, 75,000 vested and transferred immediately, with the remaining 75,000 vesting in equal installments through (and transferring on) January 1, 2015. Additionally, the Contractor will also receive options to purchase 37,500 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the quarter.

As condition of his Board of Directors Director Service Agreement, effective March 1, 2014, Norm DesRosiers, Director, was granted a restricted stock unit award veering 100,000 shares of the Company's common stock. The restricted stock unit award will vest immediately. Mr. DesRosiers will also receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the quarter.



Table of Contents

**RECENT SALES OF UNREGISTERED SECURITIES**

On October 1, 2011, as a part of the asset acquisition structure for Prime Table Games, 2,000,000 shares valued at \$0.24 each were issued separately to the two owners of Prime Table Games.

On February 13, 2014, we entered into a consulting agreement with an independent contractor (the “Contractor”). The Contractor was granted 150,000 shares of our restricted common stock of which 75,000 vested and transferred immediately, with the remaining 75,000 vesting in equal installments through (and transferring on) January 1, 2015. Additionally, the Contractor will also receive options to purchase 37,500 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the quarter.

Effective March 1, 2014, Mr. Norm DesRosiers agreed to serve as a member of our Board of Directors. In connection with his appointment, Mr. DesRosiers was granted a restricted stock unit award, covering 100,000 shares of our common stock. The restricted stock unit award vests immediately. We will also provide annual cash compensation of \$30,000 to be paid in quarterly installments on the last day of each quarter. Mr. DesRosiers will receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. Exercise life of options shall be five years from the date of grant or ninety days from date of separation, whichever is less.

The offering and sale of our shares were exempt from registration under rule 506 of Regulation D. The shares were offered exclusively to accredited and/or sophisticated investors and there was no solicitation or advertising.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected historical financial data. We derived the selected statements of operations data for the years ended December 31, 2013 and 2012 and balance sheet data as of December 31, 2013 and 2012 from our audited financial statements and notes thereto that are included elsewhere in this annual report. We derived the selected statements of operations data and balance sheet data for the years ended December 31, 2011, 2010 and 2009 from our audited financial statements that do not appear in this annual report.

You should read the following financial information together with the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this annual report. The information set forth below is not necessarily indicative of our future financial condition or results of operations.



Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

Statement of Operations Data:	Years ended December 31,								
	2013	(3)	2012	(2)	2011	(2)	2010	2009	(1)
Total revenues	\$8,218,598		\$7,222,550		\$3,684,865		\$2,950,157	\$2,765,674	
Net income (loss)	563,317		621,726		(473,336 )		(135,861 )	(447,711 )	
EBITDAS <sup>(4)</sup>	3,434,215		2,847,459		147,212		18,154	(266,266 )	

**Statement of Cash Flows Data:**

Net cash provided by (used in) operating activities	\$2,375,798		\$2,093,495		\$(273,425 )		\$(136,671 )	\$(421,587 )	
Net cash (used in) provided by investing activities	(17,690 )		(14,788 )		(10,175 )		(2,704 )	19,918	
Net cash (used in) provided by financing activities	(2,323,599 )		(1,866,471 )		22,073		174,970	784,623	

Balance Sheet Data:

Cash and cash equivalents	\$438,502		\$398,424		\$182,907		\$444,434	\$408,839	
Current assets	2,385,009		2,290,724		1,448,272		988,972	1,008,994	
Total assets	21,227,355		22,404,946		23,115,411		1,921,782	1,725,661	
Current liabilities	4,302,173		3,562,098		3,061,780		739,750	1,031,936	
Total liabilities	19,948,112		21,812,962		22,775,599		1,148,448	2,204,328	
Shareholders' equity (deficit)	1,279,243		591,984		339,812		33,584	(478,667 )	

(1) *During 2009, we disposed of a real estate investment in a non-cash trade for 50,000 shares of common stock resulting in a loss of \$99,950 from discontinued operations. This amount has been included in net loss for 2009.*

(2) *In 2011, we made a significant acquisition of assets from Prime Table Game, LLC and Prime Table Games UK. 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

*We transferred the following consideration for the net assets acquired:*

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

Common stock – 2,000,000 shares	\$480,000
Note payable – Prime Table Games LLC	12,200,000
Note payable – Prime Table Games UK	10,000,000
Total	\$22,680,000

(3) *In 2013, we recorded a \$150,000 impairment charge to reduce the carrying value of the intangible asset to its estimated fair value.*

*In addition to disclosing financial results prepared in accordance with U.S. GAAP, we disclose information regarding EBITDAS. EBITDAS includes adjusting net income/(loss) to exclude interest, taxes, depreciation, amortization and share based compensation. EBITDAS is not a measure of performance defined in accordance with U.S. GAAP. However, EBITDAS is used by management to evaluate our operating performance. Management believes that disclosure of the EBITDAS metric offers investors, regulators and other stakeholders a view of our (4) operations in the same manner management evaluates its performance. When combined with U.S. GAAP results, management believes EBITDAS provides a comprehensive understanding of our financial results. EBITDAS should not be considered as an alternative to net income/(loss) or to net cash provided by/(used in) operating activities as a measure of operating results or of liquidity. It may not be comparable to similarly titled measures used by other companies, and it excludes financial information that some may consider important in evaluating our performance. A reconciliation of U.S. GAAP net income/(loss) from operations to EBITDAS is as follows:*

Table of Contents

EBITDAS Reconciliation:	Years ended December 31,				
	2013	2012	2011	2010	2009
Net income (loss)	\$563,317	\$621,726	\$(473,336)	\$(135,861)	\$(447,711)
Interest income	(23,259 )	(21,600 )	(24,821 )	(26,150 )	(29,265 )
Interest expense	1,034,118	882,547	142,002	114,409	176,671
Income tax provision (benefit)	69,767	(341,823 )	—	—	—
Depreciation	45,562	50,488	40,149	12,833	16,040
Amortization	1,588,905	1,564,969	435,218	26,258	7,040
Impairment of intangible assets	150,000	—	—	—	—
Share based compensation expense	5,805	91,152	28,000	26,665	10,959
EBITDAS	\$3,434,215	\$2,847,459	\$147,212	\$18,154	\$(266,266)

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources as of December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012. This discussion should be read together with our audited consolidated financial statements and related notes included in Item 8. Financial Statements and Supplementary Data. Some of the information contained in this discussion includes forward-looking statements that involve risks and uncertainties; therefore our "Special Note Regarding Forward-Looking Statements" should be reviewed for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, such forward-looking statements.*

**OVERVIEW**

We develop, acquire, 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.

*Plan of operation.* See Item 1 Business and Note 1 in Item 8 for a more detailed discussion of our business, strategy and a description of each of our product categories.

*Results of operations for the years ended December 31, 2013 and 2012.* For the year ended December 31, 2013 our gross revenues increased \$996,048 or 14% to \$8,218,598, as compared to \$7,222,550 in 2012. The increase was due primarily to the performance of the Prime Table Game assets added to our portfolio in October 2011, entrance into new markets and territories and the focus on premium games, which command a higher price point per unit. Our gross revenues include \$8,077,763 or 98.2%, which were derived from recurring product leases and royalties in 2013, compared to \$7,144,744 or 98.9% in 2012. We consider our revenues from product leases and royalties to be our recurring revenues, and expect such revenues to provide the majority of our income going forward.

Additionally, the sale or reimbursement of our products and manufactured equipment increased \$63,029 or 81% to \$140,835 in 2013 from \$77,806 in 2012. This increase included \$104,000, which was related to the sale of several lifetime licenses of our Lucky Ladies product. Our cost of ancillary products and assembled components increased \$38,825 or 51% to \$106,030 in 2013 from \$70,205 in 2012. The majority of this increase was directly related to the increase in product sales and service. However, the sale of lifetime licenses did not include any direct expenses, which accounts for the disproportionate increases between the related revenue and expense accounts.

Selling, general and administrative expenses increased \$103,750 or 2.5% to \$4,217,252 in 2013 compared to \$4,113,502 in 2012. The increase was primarily due to increased sales related expenses including sales commissions, payroll, travel and trade shows; increases in regulatory costs associated with product approvals and gaming licenses in new jurisdictions; and increases in legal expenses associated with the ongoing legal proceedings. Research and development expenses increased \$134,370 or 40% to \$466,906 in 2013 compared to \$332,536 in 2012. Our research and development costs increased due to additional full-time employees and increased emphasis on product development.

In 2013, we recognized a \$150,000 impairment charge to reduce the carrying value of an intangible asset to its estimated fair value. This intangible was the result of an acquisition of territory rights from an outside sales representative to sell and distribute in the State of California. As of September 2013, we discontinued our business relationship with tribal casinos in California as a result of a notice received from the California Bureau of Gambling Control. We do not anticipate impairment of any other intangible assets nor have any assets acquired from Prime Table Games been impaired to date.

Total interest expense increased \$151,571 or 17% to \$1,034,118 for 2013, compared to \$882,547 in 2012. The increase in interest expense is due to the contractual interest rate increase in payments related to the Prime Table Games acquisition.

Income before taxes increased \$353,181 or 126% to \$633,084 in 2013, compared to \$279,903 in 2012. This is attributable to the increase in our total revenues, which continue to experience high margins. Consequently, our net income decreased \$58,409 or 9% to \$563,317 in 2013 compared to \$621,726 in 2012. This decrease was primarily driven by the recognition of tax benefits in 2012 of \$341,823, which included tax benefits related to net operating loss carryforwards and foreign tax credits. The tax expense of \$69,767 during 2013 was primarily the result of tax on current year income and the true up of previously recorded deferred tax assets.

*Liquidity and capital resources.* Prior to 2012, we incurred net losses for all annual periods since inception. We have typically funded our operating costs, research and development activities, working capital investments and capital expenditures associated with our growth strategy with proceeds from the issuances of our common stock and other financing arrangements. We expect our revenues and earnings to increase in future periods, and we expect to reinvest these earnings in additional inventory and working capital to fund anticipated growth in our recurring revenue business.

As of December 31, 2013 we had total current assets of \$2,385,009 and total assets of \$21,227,355. Our total current liabilities as of December 31, 2013 were \$4,302,173 and total liabilities were \$19,948,112. Of our current assets, we had \$438,502 in cash and equivalents as of December 31, 2013. We had restricted cash of \$244,416 related to jackpot liabilities. Such funds are restricted by regulatory guidelines and may not be used for operations. The corresponding jackpot liability of \$246,522 has been recorded in current liabilities. The difference of \$2,106 represents December's outstanding client billing related to the player funded portion of the jackpot.

Table of Contents

Our operating activities provided \$2,375,798 in cash for the year ended December 31, 2013 compared to \$2,093,495 for the year ended December 31, 2012. The primary component of our positive operating cash flow for the year ended December 31, 2013 was due to the increased pre-tax profit from operations. The growth in the deferred revenue account represents our continued overall revenue growth.

Additionally, investing activities used cash of \$17,690 for the year ended December 31, 2013, which includes acquisition of property and equipment of \$22,653.

Cash used in financing activities during the year ended December 31, 2013 were \$2,323,599, primarily relating to debt principal payments on the Prime Table Games asset acquisition.

We intend to fund our continuing operations through increased sales and ongoing operations. Additionally, the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements.

We granted employees 802,500 shares of stock at a fair value of \$0.10 per share of common stock in 2012. This was the only issuance of common stock in 2012 and we did not receive any proceeds from this grant. The grant has been recorded as share-based compensation expense and is included in selling, general & administrative expense on the statement of operations in 2012.

Despite our prior successful funding efforts, there can be no assurance that we will be successful in raising additional funding, if required. If we are not able to secure additional funding, the implementation of our business plan may be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. We will from time to time acquire products and businesses complementary to our business. As a public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

*Off balance sheet arrangements.* As of December 31, 2013 there were no off balance sheet arrangements.

*Significant equipment.* While we anticipate purchases of furniture and equipment in conjunction with our move into a new headquarters, we do not anticipate such purchases to be significant.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO FINANCIAL STATEMENTS**

	<b><u>Page</u></b>
<u>Report of Independent Registered Public Accounting Firm</u>	14
<u>Balance Sheets as of December 31, 2013 and 2012</u>	15
<u>Statements of Operations for the years ended December 31, 2013 and 2012</u>	16
<u>Statements of Comprehensive Income for the years ended December 31, 2013 and 2012</u>	17
<u>Statement of Changes in Stockholders' Equity as of December 31, 2013</u>	18
<u>Statements of Cash Flows for the years ended December 31, 2013 and 2012</u>	19
<u>Notes to Financial Statements</u>	20



Table of Contents

Silberstein Ungar, PLLC CPAs and Business Advisors

Phone (248) 203-0080

Fax (248) 281-0940

30600 Telegraph Road, Suite 2175

Bingham Farms, MI 48025-4586

[www.sucpas.com](http://www.sucpas.com)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors

Galaxy Gaming, Inc.

Las Vegas, Nevada

We have audited the accompanying balance sheets of Galaxy Gaming, Inc. as of December 31, 2013 and 2012, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galaxy Gaming, Inc. as of December 31, 2013 and 2012 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Silberstein Ungar, PLLC

Silberstein Ungar, PLLC

March 26, 2014

15

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

	December 31,	
	<b>2013</b>	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$438,502	\$398,424
Restricted cash	244,416	216,964
Accounts receivables, net allowance for bad debts of \$36,770 and \$44,223	1,273,797	1,026,768
Prepaid expenses	34,973	29,443
Inventory	297,480	217,772
Note receivable – related party, current portion	18,212	17,155
Deferred tax asset	27,119	341,823
Other current assets	50,510	42,375
Total current assets	2,385,009	2,290,724
Property and equipment, net	44,952	43,399
Products leased and held for lease, net	85,883	47,433
Intangible assets, net	16,811,511	18,550,416
Goodwill	1,091,000	1,091,000
Note receivable – related party, net of current portion	365,086	371,106
Deferred tax assets, net of current portion	436,669	—
Other assets, net	7,245	10,868
Total assets	\$21,227,355	\$22,404,946
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$241,754	\$286,983
Accrued expenses	322,402	251,734
Income taxes payable	34,655	—
Deferred revenue	526,922	440,342
Jackpot liabilities	246,522	222,109
Notes payable, current portion	2,929,918	2,360,930
Total current liabilities	4,302,173	3,562,098
Notes payable, net of debt discount, net of current portion	15,645,939	18,250,864
Total liabilities	19,948,112	21,812,962
Commitments and Contingencies (See Note 11)		
Stockholders' equity		
Preferred stock, 10,000,000 shares, \$.001 par value preferred stock authorized; 0 shares issued and outstanding	—	—
Common stock, 65,000,000 shares authorized; 38,310,591 shares issued and outstanding at December 31, 2013 and 2012, respectively	38,311	38,311
Additional paid-in capital	2,330,676	2,113,097
Stock warrants	190,053	401,827

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

Accumulated deficit	(1,002,188 )	(1,565,505 )
Accumulated other comprehensive (loss)	(277,609 )	(395,746 )
Total stockholders' equity	1,279,243	591,984
Total liabilities and stockholders' equity	\$21,227,355	\$22,404,946

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

16

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

	<b>Year Ended December 31,</b>	
	2013	2012
Revenue:		
Product leases and royalties	\$8,077,763	\$7,144,744
Product sales and service	140,835	77,806
<b>Total revenue</b>	<b>8,218,598</b>	<b>7,222,550</b>
Costs and expenses:		
Costs of ancillary products and assembled components	106,030	70,205
Selling, general and administrative	4,217,252	4,113,502
Research and development	466,906	332,536
Depreciation	45,562	50,488
Amortization	1,588,905	1,564,969
Impairment of intangible assets	150,000	—
Total costs and expenses	6,574,655	6,131,700
Income from operations	1,643,943	1,090,850
Other income (expenses)		
Interest income	23,259	21,600
Interest expense	(1,034,118 )	(882,547 )
Gain on settlement	—	50,000
<b>Total other income (expense)</b>	<b>(1,010,859 )</b>	<b>(810,947 )</b>
Income before provision for income taxes	633,084	279,903
Provision for income taxes	(69,767 )	341,823
Net income	\$563,317	\$621,726
Basic earnings per share	\$0.01	\$0.02
Diluted earnings per share	\$0.01	\$0.02
Weighted average number of shares outstanding		
Basic	38,310,591	38,109,966
Diluted	38,310,591	38,310,591

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

Table of Contents

**GALAXY GAMING, INC.**

**STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December	
	31,	
	2013	2012
Net income	\$563,317	\$621,726
Other comprehensive income :		
Foreign currency translation adjustments, net of tax benefit	118,137	(460,706)
Total comprehensive income	\$681,454	\$161,020

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

Table of Contents**GALAXY GAMING, INC.****STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid In	Stock	Stock Subscription	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Warrants	Receivable	Deficit	Income (Loss)	Equity
Beginning balance, January 1, 2012	37,508,091	\$37,507	\$1,915,311	\$513,181	\$(3,916)	\$(2,187,231)	\$64,960	\$339,812
Net income	—	—	—	—	—	621,726	—	621,726
Other comprehensive loss	—	—	—	—	—	—	(460,706)	(460,706)
Share based compensation	802,500	804	90,348	—	—	—	—	91,152
Expiration of previously issued warrants	—	—	111,354	(111,354)	—	—	—	—
Write-off of uncollectible stock subscription receivable	—	—	(3,916)	—	3,916	—	—	—
Balance, December 31, 2012	38,310,591	38,311	2,113,097	401,827	—	(1,565,505)	(395,746)	591,984
Net income	—	—	—	—	—	563,317	—	563,317
Other comprehensive income	—	—	—	—	—	—	118,137	118,137
Share based compensation	—	—	5,805	—	—	—	—	5,805
Expiration of previously issued warrants	—	—	211,774	(211,774)	—	—	—	—
Balance, December 31, 2013	38,310,591	\$38,311	\$2,330,676	\$190,053	\$—	\$(1,002,188)	\$(277,609)	\$1,279,243

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





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

## STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income for the year	\$563,317	\$621,726
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	45,562	50,488
Amortization expense	1,588,905	1,564,969
Amortization of debt discount	208,632	208,632
Bad debt expense	—	35,000
Deferred income tax provision	69,767	(341,823 )
Share-based compensation	5,805	91,152
Impairment of intangible assets	150,000	—
Changes in operating assets and liabilities:		
Increase in restricted cash	(27,452 )	(199,743 )
Increase in accounts receivable	(246,809 )	(218,440 )
(Increase) decrease in other current assets	(8,135 )	70,138
Increase in inventory	(138,997 )	(48,026 )
(Increase) decrease in prepaid expenses	(5,530 )	28,207
(Decrease) increase in accounts payable	(45,260 )	12,407
Increase (decrease) in accrued expenses	70,345	(86,245 )
Increase in income taxes payable	34,655	—
Increase in deferred revenue	86,580	104,294
Increase in jackpot liabilities	24,413	200,759
Net cash provided by operating activities	2,375,798	2,093,495
Cash flows from investing activities:		
Acquisition of property and equipment	(22,653 )	(18,467 )
Payments received on note receivable	4,963	3,679
Net cash used in investing activities	(17,690 )	(14,788 )
Cash flows from financing activities:		
Principal payments on notes payable	(2,323,599)	(1,866,471)
Net cash used in provided by financing activities	(2,323,599)	(1,866,471)
Effect of exchange rate changes on cash	5,569	3,281
Net increase in cash and cash equivalents	40,078	215,517
Cash and cash equivalents – beginning of year	398,424	182,907
Cash and cash equivalents – end of year	\$438,502	\$398,424
Supplemental cash flow information:		
Cash paid for interest	\$825,486	\$673,915
Cash paid for income taxes	\$—	\$—
Supplemental non-cash investing and financing activities information:		
Inventory transferred to leased assets	\$59,288	\$47,416

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

Effect of exchange rate on note payable in foreign currency	\$79,030	\$225,331
---	----------	-----------

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

20

Table of Contents

**GALAXY GAMING, INC.**

Notes to Financial Statements

**NOTE 1. NATURE OF OPERATIONS**

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

**History of business entities.** GGINC was incorporated in the State of Nevada on December 29, 2006, and acquired the business operations of several companies using the “Galaxy Gaming” moniker. Pursuant to these agreements, GGLLC sold selected assets, such as inventory and fixed assets, to GGINC. On January 1, 2007, GGLLC entered into several agreements with GGINC. On December 31, 2007, GGINC acquired, through an asset purchase agreement, GGLLC’s remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. GGINC also acquired the existing client base from GGLLC.

**Secured Diversified Investment, Ltd.** Secured Diversified Investment, Ltd., a publicly held Nevada corporation (“SDI”), was served with an involuntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Nevada, Case No. 08-16332. The Bankruptcy Court’s Order for Relief was entered on July 30, 2008. By order entered January 27, 2009, the Bankruptcy Court confirmed SDI’s Plan of Reorganization (“Plan”). On February 10, 2009, SDI entered into a share exchange agreement with GGINC (the “Reverse Merger”). In connection with the Reverse Merger, SDI obtained 100% of the issued and outstanding shares of GGINC and simultaneously GGINC became a wholly-owned subsidiary of SDI. Pursuant to the terms and conditions of the Reverse Merger and the terms of the Plan, SDI issued 25,000,000 shares of common stock pro-rata to the former shareholders of GGINC in exchange for obtaining ownership of 100% of the issued and outstanding shares of GGINC”). SDI also issued 4,000,006 shares of new common stock on a pro rata basis to its creditors in exchange for the discharge of its outstanding debts under Chapter 11 of the U.S. Bankruptcy Code. All of SDI’s issued and outstanding equity interests existing prior to the Reverse Merger were extinguished and rendered null and void. Immediately following these events there were 29,000,006 shares of common stock issued and outstanding. Following the closing of the share exchange agreement, SDI discontinued all prior operations and focused exclusively on the business and operations of its wholly-owned subsidiary, GGINC. On September 1, 2009, our Board approved a merger of SDI with its subsidiary, GGINC, pursuant to Nevada Revised Statute. §92A.180 (“Short Form Merger”) and the surviving merged company was named “Galaxy Gaming, Inc.”

In October 2011, we executed an asset purchase agreement (“PTG Agreement”) with Prime Table Games LLC and Prime Table Games UK (collectively “Prime Table Games” or “PTG”). 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 700 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 47 patents and patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. We continue to develop products using the intellectual property acquired as a result of this transaction. See Note 16.

***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 3,700 gaming tables located in over 500 casinos, which positions us as the second largest provider of proprietary table games in the world.

## Table of Contents

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](http://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 *High Card Flush*, *World Poker Tour Heads Up Hold’em*, *Three Card Poker* and *Emperor’s Challenge*. Typically, Premium Games command a higher price point per unit than Side Bets.

**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. As of December 2013, the *TableMAX* system offers several of our Proprietary Side Bets including *Lucky Ladies* and *21+3*.

Table of Contents

**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 financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the SEC. In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein.

***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.

**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.



Table of Contents

**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.

In 2008, we acquired territory rights from an outside sales representative to sell and distribute in the State of California for \$150,000. The purchase price was fully allocated to territory intangible assets and assigned an indefinite life. As of September 2013, we discontinued our business relationship with tribal casinos in California as a result of a notice received from the California Bureau of Gambling Control. See Note 11. Accordingly, we recorded a \$150,000 impairment charge to reduce the carrying value of the intangible asset to its estimated fair value during 2013.

**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 December 31, 2013 and 2012, we had the following client revenue concentrations:

Location	2013 Revenue	2012 Revenue
Client A North America	15.4%	12.5%
Client B United Kingdom	7.6%	8.4%
Client C United Kingdom	5.3%	6.6%
Client D North America	5.2%	4.6%

The amounts in accounts receivable related to these significant client at December 31, 2013 and 2012 were approximately \$576,000 and \$404,000, 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.

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:

- (1) Persuasive evidence of an arrangement between us and our client exists;
- (2) Shipment has occurred;
- (3) The price is fixed and or determinable; and
- (4) 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*.

Table of Contents

**Research and development.** We incur research and development costs to develop our new and next-generation products. Our products reach commercial 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.** The company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. 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 be recovered or settled. 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 provided when it is more likely than not that some or all of the deferred tax assets may not be realized. Adjustments to the valuation allowance increase or decrease the Company's income tax provision or benefit. As of December 31, 2013, the Company had a valuation allowance of \$221,443 against foreign tax credit carryovers.

The Company follows the provisions contained in ASC Topic 740, Income Taxes. The Company recognizes the tax benefit from an uncertain tax position only if it is at least 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.

Judgment is required in determining the provision for incomes taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates

**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.

***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**

***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, which we adopted during our fiscal year 2013. The adoption of the guidance has not had a material impact on our financial statements.

Table of Contents**New accounting standards not yet adopted**

*Presentation of an unrecognized tax benefit.* In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 clarifies the balance sheet presentation of such items and is applicable to all entities that have an unrecognized tax benefit due to a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We believe that the adoption of this update will primarily result in increased disclosures.

**NOTE 3. NOTE RECEIVABLE – RELATED PARTY**

The note receivable at December 31, 2013 and 2012 was as follows:

	2013	2012
Note receivable	\$383,298	\$388,261
Less: current portion	(18,212 )	(17,155 )
Total long-term note receivable	\$365,086	\$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. Interest income associated with this note receivable was \$23,070 and \$21,600 for the years ended December 31, 2013 and 2012, respectively. 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.

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 December 31, 2013, management believed that 100% of the note receivable principal and interest amounts are collectable.

**NOTE 4. PREPAID EXPENSES**

Prepaid expenses consist of the following as of December 31, 2013 and 2012:

	2013	2012
Insurance	\$12,579	\$8,096
IT system	8,923	9,065
Professional services	5,436	3,000
Property taxes	3,325	—
Inventory costs	2,520	2,005
Regulatory compliance expenses	1,868	—
Rent	175	—
Other prepaid expenses	147	2,757
Trade show expense	—	4,520
Total prepaid expenses	\$34,973	\$29,443

**NOTE 5. INVENTORY**

Inventory consists of the following as of December 31, 2013 and 2012:

	2013	2012
Raw materials and component parts	\$182,351	\$109,637
Finished goods	95,579	80,291
Work-in-process	52,445	60,739
Subtotal	330,375	250,667
Less: inventory reserve	(32,895 )	(32,895 )
Total inventory	\$297,480	\$217,772

Table of Contents**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2013 and 2012:

	2013	2012
Computer equipment	\$69,960	\$51,516
Furniture and fixtures	76,031	73,772
Office equipment	12,270	10,320
Leasehold improvements	6,367	6,367
	164,628	141,975
Less: accumulated depreciation	(119,676)	(98,576)
Property and equipment, net	\$44,952	\$43,399

Included in depreciation expense was \$21,100 and \$17,705 related to property and equipment for the years ended December 31, 2013 and 2012, respectively.

**NOTE 7. PRODUCTS LEASED AND HELD FOR LEASE**

Products leased and held for lease consisted of the following at December 31, 2013 and 2012:

	2013	2012
Enhanced table systems	\$157,861	\$98,573
Less: accumulated depreciation	(71,978)	(51,140)
Products leased and held for lease, net	\$85,883	\$47,433

Included in depreciation expense was \$20,839 and \$32,783 related to products leased and held for lease for the years ended December 31, 2013 and 2012, respectively.

**NOTE 8. INTANGIBLE ASSETS**

Intangible assets consisted of the following at December 31, 2013 and 2012:

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

	2013	2012
Patents	\$13,615,967	\$13,615,967
Customer relationships	3,400,000	3,400,000
Trademarks	2,740,000	2,740,000
Non-compete agreements	660,000	660,000
Territory rights	—	150,000
	20,415,967	20,565,967
Less: accumulated amortization	(3,604,456 )	(2,015,551 )
Intangible assets, net	\$16,811,511	\$18,550,416

Included in amortization expense was \$1,588,905 and \$1,564,969 related to the above intangible assets for the years ended December 31, 2013 and 2012, respectively.

Included in intangible assets at December 31, 2012 are territory rights of \$150,000, which are the result of a 2008 purchase from an outside sales representative to sell and distribute in the State of California. The purchase price was fully allocated to territory intangible assets and assigned an indefinite life. As of September 2013, we discontinued our business relationship with tribal casinos in California as a result of a notice received from the California Bureau of Gambling Control. See Note 11 for details regarding the California administrative action. Due to the exit from California we recorded a \$150,000 impairment charge to reduce the carrying value of the intangible asset to its estimated fair value during 2013.



Table of Contents**NOTE 9. ACCRUED EXPENSES**

Accrued expenses, consisted of the following at December 31, 2013 and 2012:

	2013	2012
Commissions	\$92,744	\$67,026
Professional fees	75,000	63,510
Salaries & payroll taxes	59,266	65,052
Trade show expenses	48,718	—
Vacation	41,216	50,949
Other accrued expenses	3,015	2,692
Accrued interest	2,443	2,505
Total accrued expenses	\$322,402	\$251,734

**NOTE 10. LONG-TERM DEBT**

Long-term debt consisted of the following at December 31, 2013 and 2012:

	2013	2012
Note payable – related party	\$1,095,181	\$1,122,915
Notes payable – PTG, net of debt discount	17,480,676	19,488,879
	18,575,857	20,611,794
Less: current portion	(2,929,918 )	(2,360,930 )
Total long-term debt	\$15,645,939	\$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. The note agreement remains in the name of GLLC and we have no direct obligation to Bank of America. Additionally, Bank of America filed a complaint against us in 2012, which was settled in February 2014. See Note 11 for further details.

In October 2011, we closed an asset acquisition with Prime Table Games (“PTG Assets”). 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 (GBP). The fair value of the notes, net of the debt discount, was \$20,670,000 at the time of issuance. The note terms are summarized as follows:

Payment Year	Monthly Payment Amounts		Interest Rate
	Prime Table Games, LLC (in USD)	Prime Table Games UK (in GBP)	
2012	\$100,000	£64,000	3 %
2013	130,000	76,800	4 %
2014	160,000	89,600	5 %
2015	190,000	102,400	6 %
2016	220,000	115,200	7 %
2017	220,000	115,200	8 %
2018	220,000	115,200	9 %

In the event future monthly revenue received by us from the PTG Assets is less than 90% of the notes monthly payment due to Prime Table Games, then the note payments at our option, may be adjusted to the higher of \$100,000 per month (for Prime Table Games, LLC) and £64,000 per month (for Prime Table Games UK) or 90% of the monthly revenue amount generated from the PTG Assets. 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.

Table of Contents

Maturities of our long-term debt as of December 31, 2013 are as follows:

Maturities as of:	Total
2014	\$2,929,918
2015	3,562,771
2016	4,297,758
2017	5,489,776
2018	3,356,212
Total long term debt	\$19,636,435
Less: debt discount	(1,060,578 )
Long-term debt, net of debt discount	\$18,575,857

**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. Rent expense was \$146,243 and \$141,598 for the years ended December 31, 2013 and 2012, respectively.

On February 24, 2014, we entered into a lease (the “Spencer Lease”) with an unrelated third party for a new corporate office. The 5-year Spencer Lease is for a building approximately 24,000 square feet, which is comprised of approximately 16,000 square feet office space and 8,000 square feet warehouse. The property is located in Las Vegas, Nevada. The initial term of the Spencer Lease will commence on April 1, 2014. We will be obligated to pay approximately \$204,000 in annual base rent in the first year, which shall increase by approximately 4% each year. We will also be obligated to pay real estate taxes and other building operating costs. Subject to certain conditions, we have certain rights under the Spencer Lease, including rights of first offer to purchase the premises if the landlord elects to sell. We also have an option to extend the term of the Spencer Lease for two consecutive terms of three years each, at the then current fair market value rental rate determined in accordance with the terms of the Spencer Lease.

In connection with the Spencer Lease, the landlord has agreed to provide a tenant improvement allowance (“TI Allowance”) option of \$150,000. If we exercise such option, the base rent will be increased by an amount sufficient to fully amortize the TI Allowance through the Spencer Lease term upon equal monthly payments of principal and interest, with interest imputed on the outstanding principal balance at the rate of 5.5% per annum.

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

Pursuant to the Spencer Lease, we have the option to terminate the Spencer Lease effective at the end of the 36th month (“Termination Date”). We must deliver written notice of our intention to terminate the Spencer Lease to landlord at least six months before the Termination Date. In the event we exercise our option to terminate, we shall pay the landlord a termination fee (the “Termination Fee”) equal to the sum of (i) all unamortized TI Allowance amounts, plus (ii) all unamortized leasing commissions paid by landlord with respect to the Spencer Lease, plus (iii) all unamortized rental abatement amounts.

The amounts shown in the accompanying table reflect our estimates of lease obligations for the twelve months ending 2014 through 2018 and are based upon our current operating leases:

Twelve Months Ended December 31,	Annual Obligation (Estimate)
2014	\$ 140,913
2015	213,936
2016	222,678
2017	231,420
2018	240,156
Thereafter	125,064
Total Estimated Lease Obligations	\$ 1,174,167

Table of Contents

**Legal proceedings.** From time to time, in the normal course of operations, we are a party to litigation matters and administrative claims by private parties or industry regulators. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and our view of these matters may change in the future as the litigation and events related thereto unfold. We expense legal fees as incurred. We record a provision for contingent losses when it is both probable that a liability will be incurred and the amount or range of the loss can be reasonably estimated. Except as otherwise stated below, we have concluded that we cannot estimate the reasonable possible loss or range of loss, including reasonable possible losses in excess of amounts already accrued, for each specific matter disclosed below. An unfavorable outcome to any legal matter, if material, could have an adverse effect on our operations or our financial position, liquidity or results of operations.

*California administrative 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 (“California Commission”) for a determination of suitability to conduct 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 became aware that the California Commission denied the applications of our CEO and GGCA for a finding of suitability. The California Commission then denied a request for stay or any further reconsideration of the matter on July 25, 2013.

On August 9, 2013, GGCA and our CEO filed a motion for writ of mandate with the Sacramento County Superior Court, asking the Court for a judicial review of the California Commission’s ruling. A hearing on the motion has been scheduled for June 13, 2014. There can be no assurances that the judicial review will be successful or that our CEO will be found suitable. In September 2013, we were notified that until this matter is resolved, we are not permitted to conduct business with tribal casinos in California.

Revenues sourced from California clients for the twelve months ending December 31, 2013 and 2012 was approximately \$167,000 and \$276,727.

*Unax Gaming settlement.* In early 2012, we filed a complaint against UNAX Service, LLC (“UNAX Gaming”) for patent infringement. In May 2012, we entered into a settlement agreement with UNAX Gaming. As a result of the UNAX Settlement, UNAX Gaming assigned all of its rights and interest in the games “*Double Action Blackjack*” and “*Squeezit Blackjack*” which were deemed to have infringed on several patents held by us. The UNAX Settlement also called for UNAX Gaming to reimburse us \$20,000 for court costs and attorney fees. Additionally, we received a note receivable from UNAX Gaming in the amount of \$50,000. The note receivable bore annual interest of 6% and payments of interest only were to be made monthly, starting on June 1, 2012. The note receivable required payments of principal in the amount of \$25,000 to be paid on or before December 31, 2012 and \$25,000 on or before June 30, 2014. The note receivable had a provision whereby the second principal payment due in June 2014 would be forgiven if UNAX Gaming complied with all terms of the UNAX Settlement and makes all other interest and principal payments timely. In the event UNAX Gaming failed to make any of the foregoing payments on the dates specified, all remaining payments would have become immediately due and subject to payment of interest beginning immediately at an annual rate of 10%. As of December 31, 2012 UNAX Gaming paid in full the outstanding balance.

*Washington administrative notice.* In March 2012, we received a notice of administrative charges from the Washington State Gambling Commission (“Washington Commission”) as a result of a routine audit conducted by them in 2010. The notice alleged untimely notifications, predominantly by predecessor companies.

In September 2013, the Washington Commission withdrew all charges and cleared us of any and all alleged wrongdoing. We are obligated to reimburse the costs of their routine audit, which amounted to \$129,000. Of that amount, \$20,000 was previously paid and expensed in 2010 and the remaining \$109,000 will be paid quarterly over the next twelve months. The amount of \$109,000 has been accrued and recognized for the three month period ending September 30, 2013 and is included in selling, general & administrative expenses on the statement of operations.

*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. The complaint, filed in the Eighth Judicial District Court in the State of Nevada, alleged that we received valuable assets from GGLLC in 2007 for little or no consideration. In the complaint, BofA sought to collect in full the outstanding principal and any accrued interest owed under the promissory note. On February 21, 2014, we reached a full settlement of all claims alleged by BofA. Pursuant to the settlement, BofA and Galaxy agreed to dismiss its legal actions against each other and enter into a mutual release of claims. Furthermore, we agreed to vacate the building located at 6980 O’Bannon Drive no later than April 30, 2014.

Table of Contents

**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 December 31, 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 -0- outstanding at December 31, 2013 and 2012.

**NOTE 13. RELATED PARTY TRANSACTIONS**

We lease our offices from the Saucier Business Trust, an entity that is related to the wife of 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 \$124,308 in 2013 and 2012. In accordance with the terms of the settlement agreement with BofA (see Note 11), we have agreed to vacate the property on or before April 30, 2014.

We have a note receivable from Abyss Group, LLC, an entity that was related to the wife of our CEO. This note receivable was acquired as part of the 2007 asset purchase agreement with GGLLC. 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 of the note receivable was \$383,298 and \$388,261, at December 31, 2013 and 2012, respectively. Interest income associated with this note receivable was \$23,070 and \$21,600 for December 31, 2013 and 2012, respectively.

We have a note payable to GGLLC, 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. The balance was \$1,095,181 and \$1,122,915, respectively. This note payable is a result of the asset purchase agreement with GGLLC and under the direction of GGLLC the payments were formerly made on GGLLC's behalf directly to BofA. As of August 1, 2013, GGLLC 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 GGLLC and we have not and do not have any direct obligation to BofA. Additionally, we were engaged in litigation with BofA which was settled in February 2014. 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 \$4,435 and \$29,875 for 2013 and 2012, respectively.

**NOTE 14. INCOME TAXES**

The components of the provision (benefit) consist of the following:

	2013	2012
Current:		
Federal	\$ 14,491	\$(51,655 )
State	20,164	—
Total current	\$ 34,655	\$(51,655 )
Deferred:		
Federal	(129,228)	(290,168)
State	(8,117 )	—
Change in valuation allowance	172,457	—
Total deferred	\$ 35,112	\$(290,168)
Provision (benefit) for income taxes	\$ 69,767	\$(341,823)



Table of Contents

The income tax provision (benefit) differs from that computed at the federal statutory corporate income tax rate as follows for years ended December 31, 2013 and 2012:

	2013	2012
Tax (provision) benefit computed at the federal statutory rate	\$ 215,249	\$ 97,966
State income tax (provision), net of federal benefit	18,600	—
Research and development tax credits	(166,522)	11,639
Other	(170,017)	(109,605)
Change in valuation allowance	172,457	(341,823)
Income tax provision (benefit)	\$ 69,767	\$ (341,823)

The tax effects of significant temporary differences representing net deferred tax assets and liabilities consisted of the following at December 31, 2013 and 2012:

	2013	2012
Deferred tax assets:		
Fixed assets	\$(47,278 )	\$ 37,515
Intangible assets	202,737	(35,651 )
Research and development tax credits	111,150	31,802
Foreign tax credits	221,443	48,986
Inventories	11,887	11,513
Bad debt reserve	13,287	—
Accrued expenses	14,894	—
Unrealized foreign currency translation	157,077	—
Accounts receivable	—	15,478
Net operating losses	—	255,982
Employee benefits	—	17,832
Share based compensation	—	6,616
Other	34	736
Total gross deferred tax assets	685,231	390,809
Less: valuation allowance	(221,443 )	(48,986 )
Net deferred tax assets	\$ 463,788	\$ 341,823

In accordance with ASC Topic 740, the Company analyzed its valuation allowance at December 31, 2013 and determined that, based upon available evidence, it is more likely than not that certain of its deferred tax assets may not be realized and, as such, has established a valuation allowance against certain deferred tax assets. These deferred tax assets include federal research and development credits and foreign tax credit carryforwards.

## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

The statute allowing a federal research and development credit (the "R&D Credit") expired for years beginning after December 31, 2011. Congress renewed the R&D Credit for the years 2012 and 2013 with the American Taxpayer Relief Act of 2012 (the "Act"). Accounting guidance required that the effects of a change in tax law be recognized in the period that includes the enactment date. For U.S. federal tax purposes, the enactment date of the Act is the date the President signs the bill into law. The President did not sign the Act into law until January 2, 2013. The total amount of the federal R&D credit benefit in 2013 and 2012 was \$33,254 and \$0, respectively.

As of December 31, 2013, the Company had foreign tax credits of \$221,443. The foreign tax credits will be used in the future to offset federal income tax owed.

Table of Contents**NOTE 15. STOCK OPTIONS AND WARRANTS**

**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 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 – December 31, 2013	616,667	\$ 0.51
Exercisable – December 31, 2013	616,667	\$ 0.51

**Stock options.** For the years ended December 31, 2013 and 2012, we issued -0- and 285,000 stock options, respectively. Stock options issued to members of our Board of Directors were -0- and 185,000 for the years ended December 31, 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 \$8,000 for the year ended December 31, 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

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

	year ended 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 years ended December 31, 2013 and 2012, respectively.

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)	0.33
Outstanding – December 31, 2012	100,000	0.25
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding – December 31, 2013	100,000	\$ 0.25
Exercisable – December 31, 2013	49,750	\$ 0.25

Table of Contents**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. 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 700 tables in over 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
Note payable – Prime Table Games UK	10,000,000
Total	\$22,680,000

See Note 10 for details regarding the notes payable.

**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

Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

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”) which conducts 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 agreed to assign, for the term of the TMAX Agreement, all of its existing gaming installations and usable inventory 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.

Table of Contents

We are responsible for the losses of the TableMAX Division however, TMAX has agreed to reimburse us for operating losses of the TableMAX Division up to a maximum of \$600,000, 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 December 31, 2013 and 2012 is \$32,935 and \$38,925, respectively, representing reimbursement due from TMAX.

**NOTE 17. SUBSEQUENT EVENTS**

***Stock issuance to consultant.*** On February 13, 2014, we entered into a consulting agreement with an independent contractor (the “Contractor”). The Contractor was granted 150,000 shares of our restricted common stock of which 75,000 vested and transferred immediately, with the remaining 75,000 vesting in equal installments through (and transferring on) January 1, 2015. Additionally, the Contractor will also receive options to purchase 37,500 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the quarter.

***Bank of America Update.*** On February 21, 2014, we reached a full settlement of all claims alleged by BofA. See Note 11.

***New Corporate Office Lease.*** On February 24, 2014, we entered into a lease with an unrelated third party for a new corporate office. See Note 11.

***Appointment of New Director.*** Effective March 1, 2014, Mr. Norm DesRosiers agreed to serve as a member of our Board of Directors. In connection with his appointment, Mr. DesRosiers was granted a restricted stock unit award, covering 100,000 shares of our common stock. The restricted stock unit award vests immediately. We will also provide annual cash compensation of \$30,000 to be paid in quarterly installments on the last day of each quarter. Mr. DesRosiers will receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. Exercise life of options shall be five years from the date of grant or ninety days from date of separation, whichever is less.

In accordance with ASC 855-10, we have analyzed our operations subsequent to December 31, 2013 to the date these financial statements were issued, and has 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

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

No events occurred requiring disclosure under Item 307 and 308 of Regulation S-K during the fiscal year ending December 31, 2013.

**ITEM 9A(T). CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our CEO and Treasurer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our CEO and CFO carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based on their evaluation, they concluded that our disclosure controls and procedures were effective.

Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our Board and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our CEO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation under the criteria established in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

During the most recently completed fiscal year, there has been no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

36

Table of Contents

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

***Directors and executive officers.*** The following information sets forth the names of our current directors and executive officers and their ages.

<u>Name</u>	<u>Age</u>	<u>Office(s) held</u>
Robert B. Saucier	58	CEO, President and Chairman of the Board
Gary A. Vecchiarelli	35	CFO, Secretary and Treasurer
Norm DesRosiers	64	Director

Set forth below is a brief description of the background and business experience of each of our current executive officers and directors.

*Robert B. Saucier* is our President, CEO, and Chairman of the Board. Mr. Saucier is our founder and has served as our President and CEO since inception and for our accounting and operational predecessors since 1997. Besides leading the executive team, Mr. Saucier’s primary responsibilities include product development, strategic planning, developing acquisition strategies and investor relations. During his career, Mr. Saucier has founded and grown five start-up companies. He was founder and CEO of the Mars Hotel Corporation, (1992 - 1998) a company that developed and managed the first non-tribal casino in Washington. Previously, Mr. Saucier founded International Pacific, an Inc. 500 company which recorded a 2,447% growth rate (five year period) and served as its President and Chairman (1986 -1992). He also founded and led Titan International, Inc. (1981 - 1986), a company that was engaged in electronic safety, security and surveillance systems. Throughout his career, Mr. Saucier has consulted with and invested in numerous business ventures and real estate development projects. Among other qualifications, Mr. Saucier brings to the Board executive leadership experience, including his service as CEO of a casino resort hotel, along with extensive domestic and international business experience.

*Gary A. Vecchiarelli* is our Chief Financial Officer, Corporate Treasurer and Secretary. Mr. Vecchiarelli has over fourteen years of professional experience in accounting and finance. Most of Mr. Vecchiarelli’s career has been in public accounting with two national accounting firms. Early in his career, Mr. Vecchiarelli worked with Crawford, Pimentel & Co., Inc, a regional firm based in San Jose, CA and national firm McGladrey & Pullen, LLP from 2003 to 2008. From 2008 to 2011, Mr Vecchiarelli joined BDO USA, LLP (“BDO”) where he played a key role in helping to open and establish the firm’s Las Vegas audit practice. Mr. Vecchiarelli has significant experience working with complex accounting issues including mergers & acquisitions, revenue recognition, SEC financial reporting and Sarbanes-Oxley compliance. During his tenure with BDO, Mr. Vecchiarelli’s clientele included gaming manufacturers Aruze Gaming America, Inc., FortuNet, Inc. and one of the world’s largest timeshare companies - Diamond Resorts

International. Mr. Vecchiarelli is a member of the American Institute of Certified Public Accountants, Financial Executives International and Institute of Management Accountants. He has been a two-term President of the Las Vegas Chapter of the Institute of Management Accountants and has served on its Board of Directors since 2008. Mr. Vecchiarelli maintains an active CPA license in the states of California and Nevada. In March 2014, Mr. Vecchiarelli was named to the Las Vegas “40 under 40” class of 2014 by VEGAS Inc., a Greenspun Media Group publication.

*Norm DesRosiers* is a Director. A veteran of the U.S. Army, Mr. DesRosiers earned a Bachelor’s Degree in Law and Justice from Central Washington State university in 1975. For the period of 1970 to 1979, Mr. DesRosiers became a Law Enforcement Sergeant with the Lynnwood, WA Police Department. For the period of 1980 to 1992, Mr. DesRosiers held several positions with Boeing Commercial Aircraft Company. During that period, he also spent several years operating his own private investigation firm. In 1993, Mr. DesRosiers joined the Fort McDowell Gaming Commission in Arizona, enforcing gaming regulatory compliance. In 1994, he joined the San Carlos Apache Tribal Gaming Commission in Arizona as Executive Director, during which time his organization was recognized as a model regulatory agency. In 1998, Mr. DesRosiers became a Commissioner with Viejas Gaming Commission in California, where he wrote ordinances and gaming commission regulations. In 2007, he was appointed by the U.S. Secretary of the Interior to serve as one of a three member commission for the National Indian Gaming Commission (NIGC) located in Washington D.C.. Most recently in 2010, Mr. DesRosiers joined the San Manuel Tribal Gaming Commission in California as Executive Director, only to be appointed as Commissioner 7 months later. His credentials include serving on the Federal Advisory Committee to the National Indian Gaming Commission for the Development of Environmental, Health and Safety Regulations for Tribal Gaming facilities (2001). He also has written the first technical standards for gaming devices to be adopted in the State of California and has published numerous articles on tribal gaming regulatory subjects. Among other qualifications, Mr. DesRosiers brings the the Board extensive gaming industry experience from industry regulatory organizations.

Our bylaws authorize no less than one and no more than fifteen directors. We currently have two directors.

***Term of office.*** Our directors are appointed for a one-year term to hold office until the next annual meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our Board and hold office until removed by the Board.

Table of Contents

**Family relationships.** There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

**Director or officer involvement in certain legal proceedings.** To the best of our knowledge, except as described below, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

None.

**Committees of the Board.** We do not currently have an executive committee or stock plan committee.

**Audit committee.** We do not have a separately-designated standing audit committee. The entire Board performs the functions of an audit committee, but no written charter governs the actions of the Board when performing the functions of what would generally be performed by an audit committee. The Board approves the selection of our independent accountants and meets and interacts with the independent accountants to discuss issues related to financial reporting. In addition, the Board reviews the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, considers the adequacy of our internal accounting procedures and considers other auditing and accounting matters including fees to be paid to the independent auditor and the performance of the independent auditor.

**Nominating committee.** Our Board does not maintain a nominating committee. As a result, no written charter governs the director nomination process. The size of our Board, at this time, does not require a separate nominating committee.

When evaluating director nominees, our directors consider the following factors:

- (1) The appropriate size of our Board;
- (2) Our needs with respect to the particular talents and experience of our directors; The knowledge, skills and experience of nominees, including experience in finance, administration or public
- (3) service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;
- (4) Experience in political affairs;
- (5) Experience with accounting rules and practices; and
- (6) The desire to balance the benefit of continuity with the periodic injection of the fresh perspective provided by new Board members.

Our goal is to assemble a Board that brings together a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Board will also consider candidates with appropriate non-business backgrounds. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Board may also consider such other factors as it may deem are in our best interests as well as our stockholders. In addition, the Board identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination. If any member of the Board does not wish to continue in service or if the Board decides not to re-nominate a member for re-election, the Board then identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Board are polled for suggestions as to individuals meeting the criteria described above. The Board may also engage in research to identify qualified individuals. To date, we have not engaged third parties to identify or evaluate or assist in identifying potential nominees, although we reserve the right in the future to retain a third party search firm, if necessary. The Board does not typically consider shareholder nominees because it believes that our current nomination process is sufficient to identify directors who serve our best interests.

**Section 16(a) beneficial ownership reporting compliance.** Section 16(a) of the Exchange Act requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge based solely on a review of Forms 3, 4, and 5 (and any amendments thereof) received by us during or with respect to the year ended December 31, 2013, no persons have failed to file, on a timely basis, the identified reports required by Section 16(a) of the Exchange Act during fiscal year ended December 2013.

**Code of Ethics.** As of December 31, 2013, we had not adopted a Code of Ethics for Financial Executives, which would include our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION**

**Compensation discussion and analysis.** Our current executive compensation system consists of cash compensation to the executive officers, who are primarily responsible for the day-to-day management and continuing development of our business.

We presently do not have an employment agreement or any fixed policy regarding compensation of Robert Saucier, our CEO. Currently, Mr. Saucier receives cash compensation of approximately \$120,000 per year, which was raised to that level as of January 1, 2012. As our founder and largest shareholder, Mr. Saucier holds a strong interest in developing and expanding our business to the best of his ability.

In connection with Mr. Vecchiarelli's appointment as Chief Financial Officer, on July 1, 2012, we entered into an employment agreement with Mr. Vecchiarelli extending through the period ended on June 30, 2015. Under the terms of the employment agreement, Mr. Vecchiarelli will be paid a base salary as indicated below:

	Monthly Gross Salary	Annualized
July 1, 2012 to December 31, 2012	\$10,000	\$120,000
January 1, 2013 to June 30, 2013	\$11,000	\$132,000
As of July 1, 2013	\$12,500	\$150,000

Additionally, Mr. Vecchiarelli will be eligible for incentive bonus compensation up to 50% of his base salary. The basis and methodology for receiving an incentive bonus will be at the sole discretion of our Board of Directors. Mr. Vecchiarelli also received a grant of 100,000 options to purchase our common stock, with the strike price of the options to be determined based on the closing price of our common stock on the day prior to his hire date. Such options will vest over three years as follows: 33% on the first anniversary (July 1, 2013) and in equal monthly installments for the remaining 24 months.

William O'Hara, served as our Chief Operating Officer and was party to a three-year employment agreement with us. The initial three-year term expired in February 2011, however Mr. O'Hara was represented by the agreement until his death on August 28, 2013. Mr. O'Hara's compensation arrangement consisted of a base annual salary together with a potential monthly bonus to be awarded for those months in which we achieve higher sales figures than in any previous month. The objective of this arrangement was to provide Mr. O'Hara with an incentive for him to lead the operations towards a continually expanding revenue base. Additionally, Mr. O'Hara was the recipient of a stock grant of 225,000 shares at a strike price of 10 cents per share on March 29, 2012. See "Item 12. Security Ownership of Certain

Beneficial Owners and Management and Related Stockholders Matters” for more complete information.

**Summary compensation table.** The table below summarizes all compensation awarded to, earned by, or paid to our current executive officers for each of the last two completed fiscal years.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan (\$)	Nonqualified deferred earnings (\$)	All other compensation (\$)	Total (\$)
Robert Saucier <sup>(1)</sup> Chief Executive Officer	2013	120,000	-	-	-	-	-	613	120,613
	2012	120,000	-	-	-	-	-	-	120,000
Gary A. Vecchiarelli <sup>(2)</sup> Chief Financial Officer	2013	133,174	-	-	5,805	-	-	-	138,979
	2012	65,113	-	-	2,902	-	-	-	68,015
William O’Hara <sup>(3)</sup> Former Chief Operating Officer	2013	116,582	-	-	-	-	-	-	116,582
	2012	162,168	-	22,500	-	-	-	-	184,668

(1) In 2013, we began paying on an auto lease for Mr. Saucier, which is classified as an auto allowance.

The dollar amounts of Mr. Vecchiarelli’s option awards are the vested grant date fair value of the option awards.

(2) Please refer to Note 15 for further information about our calculation of those amounts, which we based on the reported closing market price of our common stock on the date we granted the options. Mr. Vecchiarelli’s options vest 33% on his first anniversary (July 2, 2013) and in equal monthly installments for the remaining 24 months.

(3) Mr. O’Hara was the Company’s former Chief Operating Officer and Director until his death on August 28, 2013.



Table of Contents

*Outstanding equity awards at fiscal year-end table. The table below summarizes all unexercised options, stock that has not vested, and equity incentive plan awards for each named executive officer outstanding as of the end of our last completed fiscal year.*

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

**OPTION AWARDS**

**STOCK AWARDS**

Name	Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)	Equity incentive plan awards: number of securities underlying unexercised options	Option exercise price (\$)	Option expiration date	Number of shares or stock that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, shares or other rights that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, shares or other rights that have not vested (#)
Robert B. Saucier, CEO-	-	-	-	-	-	-	-	-
Gary A. Vecchiarelli, CFO	49,750	50,250	-	\$0.25	7/1/2017	-	-	-
William O'Hara, COO	-	-	-	-	-	-	-	-

**Compensation of directors table.** The table below summarizes all compensation paid to our directors for our last completed fiscal year.

**DIRECTOR COMPENSATION**

Name	Fees earned or paid in cash	Stock awards	Option awards	Non-equity incentive plan compensation	Non-qualified deferred compensation earnings	All other compensation	Total
Robert B. Saucier <sup>(1)</sup>	\$120,000	-	-	-	-	613	\$120,613
William O'Hara <sup>(1)</sup>	116,582	-	-	-	-	-	116,582
Norm DesRosiers <sup>(2)</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a

(1) Robert Saucier and William O'Hara did not receive any cash compensation from us for their service as members of the Board.

Mr. DesRosiers was appointed to the Board effective March 1, 2014. As of the effective date of his directorship, Mr. DesRosiers is to receive a restricted stock unit award, covering 100,000 shares of the Company's common stock, which vests immediately. We will also provide Mr. DesRosiers annual cash compensation of thirty thousand (2) dollars (\$30,000) to be paid in quarterly installments on the last day of each quarter. Mr. DesRosiers will also receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. Exercise life of options shall be five (5) years from the date of grant or ninety (90) days from date of separation, whichever is less.

Table of Contents**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, as of March 31, 2014, the beneficial ownership of our common stock by each executive officer and director, by each person known by us to beneficially own more than 5% of the our common stock and by the executive officers and directors as a group. Except as otherwise indicated, all shares are owned directly and the percentage shown is based on 38,485,591 shares of common stock issued and outstanding on March 31, 2014:

Name of beneficial owner (1)	Amount of beneficial ownership	Percent of class
Triangulum Partners, LLC (2)	23,666,667	61.49%
Gary A. Vecchiarelli, Chief Financial Officer	68,710	0.18 %
Norm DesRosiers, Director	100,000	0.26 %
Total of All Directors and Executive Officers:	23,835,377	61.93%
More Than 5% beneficial owners:	<b>None</b>	

(1) As used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). In addition, for purposes of this table, a person is deemed, as of any date, to have "beneficial ownership" of any security that such person has the right to acquire within 60 days after such date.

(2) Mr. Saucier is the Manager of Triangulum Partners, LLC. In that capacity, he is able to direct voting and investment decisions regarding the entity's shares of common stock.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Except as set forth below, none of our directors or executive officers, nor any proposed nominee for election as a director, nor any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to all of our outstanding shares, nor any members of the immediate family (including spouse, parents, children, siblings, and in-laws) of any of the foregoing persons has any material interest, direct or indirect, in any transaction over the last two years or in any presently proposed transaction which, in either case, has or will materially affect us:

(1) We currently lease our corporate offices at 6980 O'Bannon Drive, Las Vegas, Nevada from a party related to the wife of our CEO.

(2) We have a note receivable from a party related to the wife of our CEO.

- (3) We have a note payable to GGLC, an entity owned by our CEO.

We are not a “listed issuer” within the meaning of Item 407 of Regulation S-K and there are no applicable listing standards for determining the independence of our directors. Applying the definition of independence set forth in Rule 4200(a)(15) of The Nasdaq Stock Market, Inc., we do not have any independent directors.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Below is the table of Audit Fees billed by our auditor in connection with the audit of our annual financial statements for the years ended:

Fee type	2013	2012
Audit fees	\$24,300	\$37,500
Audit-related fees	1,750	1,750
Tax fees	10,000	9,350
All other fees	—	—
Total fees	\$36,050	\$48,600

Table of Contents

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES**

*(a) Financial Statements and Schedules*

The following financial statements and schedules listed below are included in this Form 10-K.

Financial Statements (See Item 8)

*(b) Exhibits*

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation <sup>(1)</sup>
3.2	Amended and Restated Bylaws <sup>(1)</sup>
10.1	Lease agreement with Abyss Group, LLC for 6980 O'Bannon Drive (related party) <sup>(2)</sup>
10.2	Amendment to lease agreement with Abyss Group, LLC for 6980 O'Bannon Drive (related party) <sup>(2)</sup>
10.3	Assignment of lease agreement between Abyss Group, LLC and the Therese Saucier Living Trust for 6980 O'Bannon Drive (related party)
10.4	Exclusive Operating and License Agreement with TableMAX Gaming, Inc. <sup>(3)</sup>
10.5	Asset Purchase Agreement with Prime Table Games, LLC <sup>(4)</sup>
10.6	Prime Table Games Promissory Note and Security Agreement - US <sup>(4)</sup>
10.7	Prime Table Games Promissory Note and Security Agreement - UK <sup>(4)</sup>
10.8	Employment agreement with Gary A. Vecchiarelli, Chief Financial Officer <sup>(5)</sup>
10.9	Board of Directors Service Agreement with Norm DesRosiers, Director <sup>(6)</sup>
10.10	Lease agreement with SRC Spencer, LLC for 6767 Spencer Drive <sup>(7)</sup>
23.1	Consent of Silberstein Ungar, PLLC, Certified Public Accountants
31.1	<u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

<sup>(1)</sup>Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 13, 2009

<sup>(2)</sup>Incorporated by reference to the Form 10k, filed by the Company with the Securities and Exchange Commission on April 1, 2013

*(3) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 24, 2011*

*(4) Incorporated by reference, to the Form 8k, filed by the Company with the Securities and Exchange Commission on October 11, 2011*

*(5) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on July 6, 2012*

*(6) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 3, 2014*

*(7) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 27, 2014*

Table of Contents

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GALAXY GAMING, INC.

Date: March 31, 2014

By: /s/ ROBERT B. SAUCIER

Robert B. Saucier

Chief Executive Officer

Date: March 31, 2014

By: : /s/ GARY A. VECCHIARELLI

Gary A. Vecchiarelli

Chief Financial Officer

Pursuant to the requirements of the Securities Exchange 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 dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ ROBERT B. SAUCIER</u> Robert B. Saucier	Chief Executive Officer (Principal Executive Officer)	March 31, 2014
<u>/s/ GARY A. VECCHIARELLI</u> Gary A. Vecchiarelli	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014
<u>/s/ NORM DESROSIERS</u> Norm DesRosiers	Director	March 31, 2014





