Galaxy Gaming, Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission file number: 000-30653

Galaxy Gaming, Inc.

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

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

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

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

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

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

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 o

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller Reporting Company x

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

State the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 39,065,591 common shares as of November 16, 2015.

GALAXY GAMING, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

GALAXY GAMING, INC.

BALANCE SHEETS

(Unaudited)

	September 30,	December 31,
ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$103,031	$560,184
Restricted cash	98,521	107,913
Accounts receivables, net allowance for bad debts of $40,000 and $34,887	1,628,543	1,472,743
Prepaid expenses	145,978	80,440
Inventories, net	271,645	232,789
Note receivable – related party, current portion	—	383,298
Deferred tax asset	47,691	47,691
Other current assets	270	62,584
Total current assets	2,295,679	2,947,642
Property and equipment, net	332,882	382,098
Products leased and held for lease, net	134,215	125,665
Intangible assets, net	13,633,949	14,756,648
Goodwill	1,091,000	1,091,000
Deferred tax assets, net of current portion	96,564	143,614
Other assets, net	42,699	45,416
Total assets	$17,626,988	$19,492,083
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,014,800	$518,428
Accrued expenses	541,659	519,166
Income taxes payable	222,671	22,872
Deferred revenue	712,852	647,625
Jackpot liabilities	105,064	111,360
Current portion of capital lease obligations	68,785	66,273
Current portion of long-term debt	4,003,899	3,480,864
Total current liabilities	6,669,730	5,366,588
Deferred rent	55,285	56,242
Capital lease obligations, net of current portion	85,506	137,204
Long-term debt, net of debt discount, net of current portion	8,524,495	12,056,467
Total liabilities	15,335,016	17,616,501
Commitments and Contingencies (See Note 12)		
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; $.001 par value 39,065,591 and	39,066	38,991

38,990,591 shares issued and outstanding		
Additional paid-in capital	2,917,264	2,844,488
Accumulated deficit	(726,162)	(980,300)
Accumulated other comprehensive income (loss)	61,804	(27,597)
Total stockholders' equity	2,291,972	1,875,582
Total liabilities and stockholders' equity	$17,626,988	$19,492,083

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

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GALAXY GAMING, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue:				
Product leases and royalties	$2,747,774	$2,516,376	$8,003,469	$7,238,539
Product sales and service	7,074	1,008	18,073	6,185
Total revenue	2,754,848	2,517,384	8,021,542	7,244,724
Costs and expenses:				
Cost of ancillary products and assembled components	22,890	19,362	70,168	56,302
Selling, general and administrative	1,736,024	1,450,403	4,995,984	3,956,855
Research and development	101,822	126,300	371,251	337,687
Depreciation	44,605	29,704	128,916	72,450
Amortization	372,313	391,249	1,122,698	1,170,381
Share-based compensation	17,909	30,554	72,850	151,378
Total costs and expenses	2,295,563	2,047,572	6,761,867	5,745,053
Income from operations	459,285	469,812	1,259,675	1,499,671
Other income (expense):				
Interest income	2,084	5,387	13,288	16,841
Interest expense	(248,604)	(271,275)	(799,407)	(834,957)
Total other expense	(246,520)	(265,888)	(786,119)	(818,116)
Income before provision for income taxes	212,765	203,924	473,556	681,555
Provision for income taxes	(93,059)	(116,495)	(219,418)	(333,584)
Net income	$119,706	$87,429	$254,138	$347,971
Basic income per share	$0.00	$0.00	$0.01	$0.01
Diluted income per share	$0.00	$0.00	$0.01	$0.01
Weighted average shares outstanding:				
Basic	39,040,775	38,560,591	39,040,775	38,493,955
Diluted	39,079,102	38,574,447	39,079,102	38,772,448

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

GALAXY GAMING, INC.

STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	FOR THE NINE MONTHS ENDED September 30,	
	2015	2014
Net income	$254,138	$347,971
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	89,401	56,974
Total comprehensive income	$343,539	$404,945

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

GALAXY GAMING, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	FOR THE NINE MONTHS ENDED	
	September 30,	
	2015	2014
Cash flows from operating activities:		
Net income for the period	$254,138	$347,971
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	128,916	72,450
Amortization expense	1,122,698	1,170,381
Provision for bad debt expense	40,000	—
Inventory reserve	47,069	—
Amortization of debt discount	156,474	156,474
Deferred income tax provision	219,418	333,584
Share-based compensation	72,850	151,378
Changes in operating assets and liabilities:		
Increase in restricted cash	9,392	149,712
Increase in accounts receivable	(197,139)	(159,478)
(Increase) decrease in other current assets	62,314	15,691
Increase in inventory	(125,820)	(80,678)
Increase in prepaid expenses	(65,538)	(19,374)
Increase in other long-term assets	—	(41,794)
Increase in accounts payable	495,891	129,885
Increase in accrued expenses	23,037	22,582
Increase in deferred revenue	65,227	97,324
Decrease in jackpot liabilities	(6,296)	(147,043)
(Decrease) increase in deferred rent	(957)	54,477
Net cash provided by operating activities	2,301,674	2,253,542
Cash flows from investing activities:		
Acquisition of property and equipment	(44,980)	(31,343)
Acquisition of intangible assets	—	(35,000)
Net cash used in investing activities	(44,980)	(66,343)
Cash flows from financing activities:		
Principal payments on capital leases	(49,186)	(24,753)
Principal payments on notes payable	(2,662,699)	(2,199,935)
Net cash used in financing activities	(2,711,885)	(2,224,688)
Effect of exchange rate changes on cash	(1,962)	(6,461)
Net decrease in cash and cash equivalents	(457,153)	(43,950)
Cash and cash equivalents – beginning of period	560,184	438,502
Cash and cash equivalents – end of period	$103,031	$394,552
Supplemental cash flow information:		
Cash paid for interest	$800,830	$678,483
Inventory transferred to leased assets	$39,896	$71,203

Cash paid for income taxes	$—	$—
Supplemental non-cash financing activities information:		
Effect of exchange rate on note payable in foreign currency	$119,414	$190,180
Assets acquired by capital leases	$—	$243,970

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

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

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

Description of business. We are 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 experience.

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 and 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, Africa and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 4,000 gaming tables located in over 500 casinos, which positions us as the second largest provider of proprietary table games in the world.

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

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

Proprietary Table Games. We design, develop and deliver our Proprietary Table Games to enhance our casino clients’ table game operations. Casinos use our Proprietary Table Games in lieu of those games in the public domain (e.g. Blackjack, Craps, Roulette, etc.) because of their popularity with players and to increase profitability. Our Proprietary Table Games are grouped into two product types we call “Side Bets” and “Premium Games.” Side Bets are proprietary features and wagering schemes typically added to public domain games such as poker, baccarat, pai gow poker, craps and blackjack table games. Examples of our 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 our Premium Games include such popular titles as High Card Flush, World Poker Tour Heads Up Hold’em, Three Card Poker, and Texas Shootout. Generally, 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 three products in this category: our Bonus Jackpot System, our Inter-Casino Jackpot System and our MEGA-Share. We receive compensation by collecting a fixed fee or a transaction fee.

Our 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 can facilitate either a fixed, adjustable or progressive style jackpot.

Our Inter-Casino Jackpot System leverages the abilities of our Bonus Jackpot System to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network.

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 him or her to a jackpot. This jackpot winning event will trigger a second MEGA-Share jackpot that is divided among all players who made a MEGA-Share qualified wager.

e-Tables. In 2011, we licensed the worldwide rights (excluding Oklahoma, Kentucky and the Caribbean), to the TableMAX e-Table system. Simultaneously we 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 17. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. Our 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.

Ancillary equipment. In 2014, we entered into an exclusive license for the worldwide rights to a patented technology that detects invisible card markings. With this technology, we developed SpectrumVision, which uses highly specialized and customized optics to see markings on playing cards that would otherwise be invisible or undetectable to the naked eye and surveillance cameras. SpectrumVision will be leased for a monthly fee or outright sale. Units sold may have a service contract issued in conjunction with the sale..

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 accounting principles generally accepted in the United States of America ("U.S. 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 U.S. GAAP and the rules of the SEC. In the opinion of management, all adjustments necessary in order for the financial statements to not be misleading have been reflected herein.

Basis of accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP. Revenues are recognized as income when earned and expenses are recognized when they are incurred. We do not have significant categories of cost 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
Licensing agreements	60 months
Patents	87 - 132 months
Trademarks	144 - 360 months
Client relationships	264 months

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

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

Impairment of long-lived assets. We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assess 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.

Leases. We recognize rent expense for operating leases on a straight-line basis (including the effect of reduced or free rent and rent escalations) over the applicable lease term. The difference between the cash paid to the landlord and the amount recognized as rent expense on a straight-line basis is included in deferred rent. The landlord of our corporate headquarters financed leasehold improvements in the amount of $150,000. See Note 12. These improvements have been recorded as a capital lease and amortized over the life of the lease.

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. For the nine months ended September 30, 2015 and 2014, respectively, we had the following client revenue concentrations:

		2015	2014
	Location	Revenue	Revenue
Client A	North America	14.8%	15.2%
Client B	United Kingdom	6.7%	8.0%
Client C	North America	6.8%	5.6%
Client D	North America	5.5%	5.0%

We are also exposed to risks associated with the expiration of our patents. Domestic and international patents for two of our products expired in June 2015. The patents account for approximately $4,283,055 or 53% of our revenue for the nine months ended September 30, 2015.

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 of our 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 is 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 and SpectrumVision.

Research and development. We incur research and development ("R&D") 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. We use 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 our income tax provision or benefit.

We follow the provisions contained in Accounting Standards Codification ("ASC") Topic 740, Income Taxes. We recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

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, our tax returns are subject to audit by various tax authorities. Although we believe that our 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 – not adopted

We believe there is no additional new accounting guidance adopted, but not yet effective, which is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on its financial reporting.

NOTE 3. NOTE RECEIVABLE – RELATED PARTY

The note receivable balance was as follows:

	September 30, 2015	December 31, 2014
Note receivable	$ —	$ 383,298
Less: current portion	—	—
Long-term note receivable	$ —	$ 383,298

A 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 in September 2010 whereby the monthly principal and interest payment was reduced to $3,332 and the unpaid principal and interest was due August 2015.

Interest income associated with this note receivable was $13,443 and $16,432 for the nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015, there was an interest receivable balance of $0.

On August 10, 2015, our Board of Directors approved an agreement between the Company and Carpathia Associates, LLC, an entity which is owned and controlled by our Chief Executive Officer, Robert Saucier (the “Agreement”). The Agreement amends the terms of the note receivable and note payable previously entered into between the parties by offsetting the note receivable and note payable between the two parties. The effective result will be that the balloon payment of $437,313, due under the terms of the note receivable from Carpathia, will be applied to the outstanding note payable due to Carpathia. The Board believes that the Company benefits from the arrangement as the Agreement extends the note payable’s balloon payment from February 2017 to December 2018. The balloon payment due in December 2018 will be $354,480. The foregoing summary of the Agreement is qualified in its entirety by to the full context of the agreement which is found as Exhibit 99.1 to this filing.

NOTE 4. PREPAID EXPENSES

Prepaid expenses consisted of the following at:

	September 30,	December 31, 2014

	2015	
Professional services	$ 57,741	$ 21,863
IT systems	35,328	9,304
Trade show expense	21,000	7,000
Dues & subscriptions	13,763	14,562
Compliance	9,597	—
Insurance	6,191	16,612
Rent	1,989	1,989
Other prepaid expenses	369	523
Travel	—	8,587
Prepaid expenses	$ 145,978	$ 80,440

NOTE 5. INVENTORY

Inventory consisted of the following at:

	September 30, 2015	December 31, 2014
Finished goods	$ 168,621	$ 96,254
Raw materials and component parts	87,661	111,246
Work-in-process	50,363	69,464
	306,645	276,964
Less: inventory reserve	(35,000)	(44,175)
Inventory	$ 271,645	$ 232,789

NOTE 6. PROPERTY AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
Furniture and fixtures	$211,411	$ 197,751
Leasehold improvements	156,843	150,000
Automotive vehicles	94,087	86,364
Computer equipment	89,202	84,186
Office equipment	29,140	17,403
	580,683	535,704
Less: accumulated depreciation	(247,801)	(153,606)
Property and equipment, net	$332,882	$ 382,098

Included in depreciation expense was $94,854 and $45,590 related to property and equipment for the nine months ended September 30, 2015 and 2014, respectively.

Property and equipment includes $243,970 of leasehold improvements, furniture and fixtures under capital leases as of September 30, 2015. Accumulated depreciation of assets under capital leases totaled $89,365 as of September 30, 2015.

NOTE 7. PRODUCTS LEASED AND HELD FOR LEASE

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

	September 30, 2015	December 31, 2014
Enhanced table systems	$273,391	$ 233,496
Less: accumulated depreciation	(139,176)	(107,831)
Products leased and held for lease, net	$134,215	$ 125,665

Included in depreciation expense was $31,345 and $24,143 related to products leased and held for lease for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 8. INTANGIBLE ASSETS

Intellectual property and intangible assets consisted of the following at:

	September 30, 2015	December 31, 2014
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
Licensing agreements	35,000	35,000
	20,450,967	20,450,967
Less: accumulated amortization	(6,817,018)	(5,694,319)
Intangible assets, net	$13,633,949	$14,756,648

Amortization expense was $1,122,698 and $1,170,381 for the nine months ended September 30, 2015 and 2014, respectively.

In October 2011, we acquired the following intangible assets related to the asset purchase with Prime Table Games LLC and Prime Table Games UK (collectively "Prime Table Games"):

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

NOTE 9. ACCRUED EXPENSES

Accrued expenses, consisted of the following at:

	September 30, 2015	December 31, 2014
Royalties	$ 197,353	$ 59,715
Professional fees	79,429	60,779
TableMAX reimbursement	69,749	72,636
Salaries & payroll taxes	64,267	70,262
Vacation	62,238	58,642
Trade show expenses	44,761	41,666
Commissions	17,586	148,902
Other accrued expenses	4,013	2,878
Accrued interest	2,263	3,686
Accrued expenses	$ 541,659	$ 519,166

NOTE 10. CAPITAL LEASE OBLIGATIONS

Capital lease obligations consisted of the following at:

	September 30, 2015	December 31, 2014
Capital lease obligation – leasehold improvements	$ 114,465	$ 135,171

Capital lease obligation – office furniture	39,826	68,306
	154,291	203,477
Less: Current portion	(68,785)	(66,273)
Capital lease obligations	$ 85,506	$ 137,204

The capital lease obligation – office furniture requires 30 monthly payments of $3,641, including interest at 10.2%, beginning April 2014 through September 2016.

The capital lease obligation – leasehold improvements requires 60 monthly payments of $2,879, including 5.5% interest, beginning May 2014 through May 2019.

The capital leases cover furniture and leasehold improvements located at our corporate headquarters in Las Vegas, Nevada. Annual requirements for capital leases obligations are as follows:

September 30,	Total
2016	$ 76,538
2017	34,545
2018	34,545
2019	23,029
Total minimum lease payments	$ 168,657
Less: amount representing interest	(14,366)
Present value of net minimum lease payments	$ 154,291

NOTE 11. NOTES PAYABLE

Notes payable consisted of the following at:

	September 30, 2015	December 31, 2014
Notes payable, net of debt discount - PTG	$11,857,949	$14,385,643
Note payable – related party	595,789	1,065,324
Vehicles, notes payable	74,656	86,364
	12,528,394	15,537,331
Less: Current portion	(4,003,899)	(3,480,864)
Total long-term debt	$8,524,495	$12,056,467

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 GGLLC. The note payable between GGLLC and Bank of America was the subject of litigation and was settled in February 2014. See Note 12 for further details.

In October 2011, we closed an asset acquisition with Prime Table Games ("PTG"). 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 ($10.0 million USD) note. The notes were recorded at fair value, net of a debt discount of $1,530,000. See Note 17 for further details.

Maturities of our notes payable are as follows:

Maturities as of September 30,	Total
2016	$4,003,899
2017	4,353,044
2018	4,181,112
2019	680,535
2020	5,276
Total notes payable	$13,223,866
Less: debt discount	(695,472)
Notes payable, net of debt discount	$12,528,394

NOTE 12. COMMITMENTS AND CONTINGENCIES

Operating lease obligations. In February 2014, we entered into a lease (the "Spencer Lease") for a new corporate office with an unrelated third party. The 5-year Spencer Lease is for a building approximately 24,000 square feet in size, which is comprised of approximately 16,000 square feet of office space and an 8,000 square foot warehouse. The property is located in Las Vegas, Nevada.

The initial term of the Spencer Lease commenced on April 1, 2014. We paid approximately $153,000 in annual base rent in the first year, which increases by approximately 4% each year. We are also 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 finance tenant improvements ("TI Allowance") of $150,000. The base rent is 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. The TI Allowance has been classified as a capital lease on the balance sheet. See Note 10.

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 the landlord at least six months before the Termination Date. In the event we exercise our option to terminate, we must pay the landlord a 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.

Total rent expense was $206,239 and $187,722 for the nine months ended September 30, 2015 and 2014, respectively.

Future minimum lease payments are as follows:

Twelve Months Ended September 30,	Annual Obligation
2016	$ 220,491
2017	229,236
2018	237,972
2019	184,794
2020	1,401
Total Estimated Lease Obligations	$ 873,894

Legal proceedings. In the ordinary course of conducting our business, we are, from time to time, involved in various legal proceedings, administrative proceedings, regulatory government investigations and other matters, including those in which we are a plaintiff, that are complex in nature and have outcomes that are difficult to predict. In accordance with topic ASC Topic 450, we record accruals for such contingencies to the extent that we conclude that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. Our assessment of each matter may change based on future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on our business operations, intellectual property, results of operations or financial position. Unless otherwise expressly stated, we believe costs associated with litigation will not have a material impact on our financial position or liquidity, but may be material to the results of operations in any given period. We assume no obligation to update the status of pending litigation, except as may be required by applicable law, statute or regulation. For a complete description of the facts and circumstances surrounding material litigation to which we are a party, see Note 11 in Item 8. “Financial Statements and Supplementary Data” included in our annual report on Form 10-K for the year ended December 31, 2014. There are no material updates to matters previously reported on Form 10-K for the year ended December 31, 2014, except:

In-Bet litigation. In November 2014, we filed a complaint for patent infringement against In Bet Gaming, Inc. and In Bet, LLC, alleging that their “In-Between” side bet game infringes on one or more of our patents. The litigation is currently pending.

Red Card Gaming & AGS litigation. In September 2012, we executed an asset purchase agreement (“APA”) with Red Card Gaming, Inc. (“RCG”), for the purchase of all the rights, title and interest in and for the game known as High Card Flush and all associated intellectual property. The APA included customary non-compete, non-disparagement and right of first refusal provisions. In 2014, AGS, LLC (“AGS”) purchased RCG’s rights in the APA and became the assignee of the APA. In September 2014 we notified RCG of their material breach of the APA and discontinued contingent consideration payments. In November 2014, RCG and AGS attempted to terminate the APA and in December 2014, filed a complaint against us alleging trademark infringement. We filed a cross-complaint against RCG and AGS alleging conspiracy to breach the APA, misappropriation of our trade secrets, infringement of our trademark and copy rights and interference with customer relationships. As of the date of this Report, there were pending cross motions for preliminary injunctions in which the parties seek to enjoin each other from selling the High Card Flush game. The parties have agreed the substance of the dispute is to be heard in arbitration, which is scheduled for November 2015.

NOTE 13. 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 September 30, 2015.

In February 2014, an independent contractor (the "Contractor") was granted 150,000 shares of our restricted common stock. Of this amount, 75,000 vested and transferred immediately, and the remaining 75,000 vested in equal installments through (and transferred on) January 1, 2015.

In March 2014, Norm DesRosiers, one of our Directors, was granted 100,000 shares of our restricted common stock as condition of his Board of Directors Director Service Agreement. The fair market value of the grant was $28,000, which was determined using our closing stock price at March 1, 2014. The restricted stock grant vested immediately.

In May 2014, William A. Zender, one of our Directors, was granted 75,000 shares of our restricted common stock as a condition of his Board of Directors Director Service Agreement. The fair market value of the grant was $35,250, which was determined using our closing stock price at May 1, 2014, the date of the grant. The restricted stock grant vested immediately.

In December 2014, the Board of Directors approved a stock grant for a small group of employees that granted 255,000 shares of restricted common stock. The fair market value of the grant was $102,000, which was determined using our closing stock price at December 29, 2014, the date of the grant. The restricted stock grant vested immediately.

In December 2014, the Compensation Committee of the Board of Directors approved a bonus in the form of stock compensation to our Chief Financial Officer Gary A. Vecchiarelli, based on Mr. Vecchiarelli's individual performance. The stock grant was for 100,000 restricted shares of our common stock with a fair market value of $40,000. The value of the bonus was determined using our closing stock price at December 29, 2014, the date of the grant.

In April 2015, Bryan Waters, one of our Directors, was granted 75,000 shares of our restricted common stock as condition of his Board of Directors Director Service Agreement. The fair market value of the grant was $22,500, which was determined using our closing stock price as April 1, 2015, the date of the grant. The restricted stock grant vested immediately.

There were 39,065,591 common shares and no preferred shares issued and outstanding at September 30, 2015.

NOTE 14. RELATED PARTY TRANSACTIONS

Through April 2014, we leased our prior offices located on O'Bannon Drive in Las Vegas from the Saucier Business Trust, an entity that is related to our CEO. The lease was entered into effective September 1, 2010 for a period of two years requiring a monthly rental payment of $10,360. Our lease expired at the end of August 2012 and then converted to a term of month-to-month. Total payments made were $-0- and $37,296 for the nine month periods ended September 30, 2015 and 2014, respectively.

We have a note receivable from Abyss Group, LLC ("Abyss"), an entity that was formerly related to the wife of our CEO. Subsequently, Abyss assigned the note to Carpathia Associates, LLC ("Carpathia"), an entity controlled by 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 as of September 30, 2015 and December 31, 2014 was $0 and $383,298, respectively. Interest income associated with this note receivable was $13,443 and $16,432 for the nine month periods ended September 30, 2015 and 2014, respectively.

We have a note payable to a related party, GGLLC, an entity formerly controlled by our CEO. Subsequently, GGLLC assigned the note to Carpathia. The note payable 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. The balance as of September 30, 2015 and December 31, 2014 was $595,789 and $1,065,324, respectively. This note payable is a result of the asset purchase agreement with GGLLC.

On August 10, 2015, our Board of Directors approved an agreement between the Company and Carpathia Associates, LLC, an entity which is owned and controlled by our Chief Executive Officer, Robert Saucier (the "Agreement"). The

Agreement amends the terms of the note receivable and note payable previously entered into between the parties by offsetting the note receivable and note payable between the two parties. The effective result will be that the balloon payment of $437,313, due under the terms of the note receivable from Carpathia, will be applied to the outstanding note payable due to Carpathia. The Board believes that the Company benefits from the arrangement as the Agreement extends the note payable's balloon payment from February 2017 to December 2018. The balloon payment due in December 2018 will be $354,480. The foregoing summary of the Agreement is qualified in its entirety by to the full context of the agreement which is found as Exhibity 99.1 to this filing.

On October 26, 2015 (the "Effective Date"), Galaxy Gaming, Inc. (the "Company") entered into a Promissory Note (the "Note") with Robert Saucier, Chief Executive Officer, pursuant to which the Company has agreed to repay a loan of $500,000 made by Mr. Saucier to the Company. Under the terms of the Note, $590,000 shall be due on or before one year from the Effective Date, unless the Company pays Mr. Saucier $535,000 on or before six months from the Effective Date, in which case the Company will have fulfilled all of its obligations under the Note. The foregoing summary of the Note is qualified in its entirety by to the full context of the Note which Is found as Exhibit 10.1 to our Form 8-K filed with the SEC on October 28, 2015.

NOTE 15. INCOME TAXES

Our forecasted effective tax rate at September 30, 2015 is 47.6%, a .3% decrease from the 47.9% effective tax rate recorded at September 30, 2014. After a discrete income of $2,712, the effective tax rate for the nine months ended September 30, 2015 was 47%. The discrete tax income was primarily due to changes in estimate for the domestic manufacturing deduction.

NOTE 16. STOCK WARRANTS, OPTIONS AND GRANTS

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

A summary of current warrant activity is as follows:

	Common Stock Warrants	Weighted Average Exercise Price
Outstanding – January 1, 2014	616,667	$ 0.56
Issued	—	—
Exercised	—	—
Expired	(616,667)	0.56
Outstanding – December 31, 2014	—	—
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding – September 30, 2015	—	$ —
Exercisable – September 30, 2015	—	$ —

Stock options. For the nine months ended September 30, 2015 and 2014, we issued 412,500 and 202,083 stock options, respectively. Stock options issued to members of our Board of Directors were 200,000 and 108,333 for the nine months ended September 30, 2015 and 2014, respectively. Stock options issued to independent contractors were 112,500 and 93,750 for the nine months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015, we issued 100,000 stock options to an employee, with a vesting period of three years. The strike price was equal to the stock price at the date of the grant.

All stock options granted for the nine months ended September 30, 2015 and 2014 were calculated to have fair values of $72,580 and $30,554, respectively, using the Black-Scholes option pricing model with the following assumptions:

	Options Issued Nine Months Ended September 30, 2015
Dividend yield	0%

Expected volatility	84% - 85%
Risk free interest rate	1.37% - 1.63%
Expected life (years)	5.00

A summary of stock option activity is as follows:

	Common Stock Options		Weighted Average Exercise Price
Outstanding – January 1, 2014	100,000	$	0.25
Issued	281,250		0.41
Exercised	—		—
Expired	—		—
Outstanding – December 31, 2014	381,250	$	0.36
Issued	420,833		0.26
Exercised	—		—
Expired	—		—
Outstanding – September 30, 2015	802,083	$	0.31
Exercisable – September 30, 2015	225,000	$	0.20

Share based compensation. The cost of all stock options and stock grants issued have been classified as share based compensation for the nine months ended September 30, 2015 and 2014, respectively. Total share based compensation was $72,850 and $151,378 for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 17. ASSET ACQUISITIONS AND SIGNIFICANT TRANSACTIONS

Acquisition of Prime Table Games' assets. In October 2011, we executed an asset purchase agreement (the "PTG Agreement") with Prime Table Games, LLC and Prime Table Games UK (collectively "Prime Table Games"). Under the terms of the PTG Agreement we acquired over 20 different table games, including 21+3, Two-way Hold'em and Three Card Poker, which are currently played in over 250 casinos worldwide (Three Card Poker rights are limited to the British Isles). The intellectual property portfolio included 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 a non-compete agreement with us.

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 11 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
Goodwill	1,091,000
Non-compete agreement	660,000
Total purchase price allocation	$22,680,000

As of December 31, 2014, we determined several patents purchased as part of this transaction to be impaired and reduced the carrying value of the intangible asset to zero during 2014. The total impairment charge recognized for these patents as of December 31, 2014, was $528,233.

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.

We are responsible for the losses of the TableMAX Division. 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. We have not experienced significant losses attributable to the TableMAX Division.

Included in accrued expenses at September 30, 2015 and December 31, 2014, is $69,749 and $72,636, respectively, which represent reimbursement due to TMAX.

NOTE 18. SUBSEQUENT EVENTS

In accordance with ASC 855-10, we have analyzed our operations subsequent to September 30, 2015 to the date of these financial statements were issued, and have determined that we do not have any material subsequent events to disclose in these financial statements other than the events discussed above.

On October 26, 2015 (the "Effective Date"), we entered into a Promissory Note (the "Note") with Robert Saucier, our Chief Executive Officer, pursuant to which we had agreed to repay a loan of $500,000 made by Mr. Saucier to us. Under the terms of the Note, $590,000 shall be due on or before on year from the Effective Date, unless we pay Mr. Saucier $535,000 on or before six months from the Effective Date, in which case we will have fulfilled all of our obligations under the Note. The Note was filed as Exhibit 10.1 to our Form 8-K filed with the SEC on October 28, 2015.

On November 14, 2015, the Board of Directors approved a new Employment Agreement and Indemnification Agreement (Collectively, the "Employment Agreement") with Gary A. Vecchiarelli, our Chief Financial Officer, extending through the period of December 31, 2018. Mr. Vecchiarelli's annual base salary will be $180,000 and he will be eligible for bonus compensation up to 50% off his base salary, with a guaranteed minimum of 10%. Additionally, Mr. Vecchiarelli has the option to use up to 50% of his bonus compensation to purchase shares of our common stock at a 50% discount. Mr. Vecchiarelli will also receive a grant of 150,000 shares of restricted common stock and 150,000 options to purchase restricted common stock. The options have a strike price equal to the closing price of the Company's common stock on the date of the grant. Both the grant of restricted common stock and options will vest beginning June 30, 2016 in six month periods through December 31, 2018. The foregoing summary of the terms of the Vecchiarelli Agreement is qualified in its entirety to the actual terms of the employment agreement, which is attached herto as Exhibit 99.2 and its incorporated herein by reference.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

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

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

Strategy. Our long-term business strategy is designed to capitalize on the opportunities we perceive within the gaming industry. We are an experienced developer and provider of proprietary table games, advanced electronic table game platforms and e-Tables. Throughout our history, we have been focused on creating and expanding our base of recurring revenues that we earn on a monthly basis. Our plan is to continue to increase the recurring revenues we receive by employing the following strategies:

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

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

We anticipate the continued acquisition and/or development of additional new proprietary table games and associated intellectual property, which when combined with our existing portfolio, will give us the complete inventory of proprietary games 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 placement 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.

Grow our e-Table business. Our TMAX e-Tables are developed for us by TableMAX Corporation. Having installed the majority of TMAX e-Tables we received in prior years, we are now offering the latest version of the TMAX e-Table, referred to as the "Model E." Currently, there are several Model E's in the field generating revenue. We expect to expand placements of the TMAX product and increase our revenues in 2015.

Sources of revenue. We derive recurring revenues from the licensing of our products and intellectual property. Consistent with our strategy, these revenues are generated from negotiated recurring licensing fee agreements, which typically, are month-to-month in nature. We also receive revenues in the form of a one-time sale of certain products and/or reimbursement of our manufactured equipment.

Financing. Additional funding may be necessary to facilitate our current aggressive growth plans and acquisition strategy, as well as the investments in our infrastructure. If we determine that additional funding is required and we are unsuccessful in raising capital, we will still pursue acquisitions and growth; however, our acquisition opportunities could be limited and our growth strategy could be negatively impacted.

Expected changes in number of employees, plant and equipment. As we continue to grow, we anticipate the purchasing of inventory and equipment and possibly the leasing of additional space to accommodate research, development, manufacturing and assembly operations. We will also evaluate the necessary increases to our employee base over the course of the year.

Results of operations for the three months ended September 30, 2015. For the three months ended September 30, 2015, our continuing operations generated gross revenues of $2,754,848 compared to gross revenues of $2,517,384 for the previous year's comparable quarter, representing an increase of $237,464 or 9.4%. This increase was primarily attributable to our continued focus on premium games, which command a higher price point than side bets. Additionally, increased utilization of products in the United Kingdom contributed to the increase in gross revenues. Selling, general and administrative expenses for the quarter ended September 30, 2015, were $1,736,024 compared to $1,450,403 for the previous year's third quarter, representing an increase of $285,621, or 19.7%. The significant year-over-year changes in selling, general and administrative was comprised of the following categories:

	Three months ended September 30,	
	2015	2014
Distributor	$102,185	$212,322
Royalty	$116,315	$73,144
Legal	$346,178	$33,178
Regulatory	$164,723	$91,078

The increase in legal expenses were due to the ongoing litigation with competitors occurring throughout 2015. Regulatory and compliance expenses increased significantly due to expanding our footprint throughout the world through jurisdictional and compliance approvals. Royalty expenses increased due to the rapidly expanding presence of products such as World Poker Tour Heads Up Hold'em, High Card Flush and Bonus Craps. Distributor expenses decreased as we moved away reliance on third party distributors in some jurisdictions.

Results of operations for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, our continuing operations generated gross revenues of $8,021,542 compared to gross revenues of $7,244,724 for the previous year's comparable period, representing an increase of $776,818 or 10.7%. This increase was primarily attributable to our continued focus on premium games, which command a higher price point than side bets. Additionally, increased utilization of products in the United Kingdom contributed to the increase in gross revenues. Selling, general and administrative expenses for the nine months ended September 30, 2015, were $4,995,984 compared to $3,956,857 for the previous year's comparable period, representing an increase of $1,039,127, or 26.3%. The significant year-over-year changes in selling, general and administrative was comprised of the following categories:

	Nine months ended September 30,	
	2015	2014
Royalty	$299,124	$197,058
Legal	$905,878	$72,709
Regulatory	$251,620	$145,221

The increase in legal expenses were due to the ongoing litigation with competitors occurring throughout 2015. Regulatory and compliance expenses increased significantly due to expanding our footprint throughout the world through jurisdictional and compliance approvals. Royalty expenses increased due to the rapidly expanding presence of products such as World Poker Tour Heads Up Hold'em, High Card Flush and Bonus Craps.

Liquidity and capital resources. As of September 30, 2015 we had total current assets of $2,295,679 and total assets of $17,626,988. This compares to $2,947,642 and $19,492,083, respectively as of December 31, 2014. The decrease in current assets as of September 30, 2015 was primarily impacted by a decrease in cash and cash equivalents, as well as a decrease in notes receivable. This decrease in cash and equivalents is due to increased expenses in the first three quarters, primarily attributable to legal and professional fees. Our total current liabilities as of September 30, 2015 were $6,669,730 versus $5,366,588 as of December 31, 2014. This slight increase was due to increases in income taxes payable and our current portion of notes payable, due to our scheduled monthly debt payment increase to Prime Table Games in January 2016.

We have undertaken certain growth initiatives to expand our recurring revenue base. As such we have made investments in personnel, inventory and research related to the development of our enhanced table systems. Additionally, we have increased our sales and marketing budget and spent monies on regulatory efforts for the purpose of expanding our distribution network. We are also subject to several regulatory investigations and proceedings which may result in significant future legal and regulatory expenses. A significant increase in such expenses may require us to postpone growth initiatives or investments in personnel, inventory and research and development of our products. It is our intention to continue such initiatives and investments. However, to the extent we are not able to achieve our growth objectives or raise additional capital, we will need to evaluate the reduction of operating expenses.

At September 30, 2015, other than the commitment from the major shareholder of TMAX to provide a line of credit specific to acquiring inventory for the TMAX system, we do not have any available third-party lines or letters of credit. Furthermore, we do not have any written or oral commitments from officers or shareholders to provide us with loans or advances to support our operations or fund potential acquisitions.

The primary components of our operating cash flow for the nine months ended September 30, 2015, were non-cash items of $1,786,769, net income of $254,139, increases in accounts receivable of 197,139, inventory of $125,820, restricted cash of $9,392 and jackpot liabilities of $6,296 for a total operating activities impact of an increase of $2,301,674 in cash and cash equivalents.

Cash flows used in investing activities for the nine months ended September 30, 2015 were $44,980, due to the acquisition of property and equipment. Cash used in financing activities during the nine months ended September 30, 2015 was $2,711,885, which was completely comprised of principal payments towards long-term debt and capital leases.

We incur unrealized gains and losses related to foreign currency translation adjustments, which is recorded as other comprehensive income or loss. For the nine months ended September 30, 2015 we incurred other comprehensive income of $343,540, net of tax. This amount is primarily due to the unrealized translation adjustment on the note payable due Prime Table Games – UK, which is due in British Sterling currency. The remaining translation adjustments relate to insignificant amounts in accounts receivable, accounts payable and accrued expenses recorded in foreign currencies. So as long as we have balance sheet items recorded in foreign currencies, such as the note payable, we will be subject to fluctuations against the U.S. Dollar. Additionally, as transactions are settled, the foreign currency translations are realized and recorded as selling, general & administrative expenses on the statement of operations. Such realized translation adjustments are de minimus for the nine months ended September 30, 2015.

We intend to fund our continuing operations through increased sales. Additionally the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements. Despite this funding, there is no assurance that we will be successful in raising additional funding, if necessary. If we are not able to secure additional funding, the implementation of our business plan could be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. In addition, we may incur higher capital expenditures in the future to expand our operations. We may from time to time acquire products and businesses complementary to our business. We may also incur significant expenses when applying for new licenses or in complying with current jurisdictional requirements. As a public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

Critical accounting policies. In December 2001, the SEC requested that all registrants list their most "critical accounting polices" in the Management Discussion and Analysis. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of a company's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Currently, we do not believe that we have any accounting policies that fit this definition.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4T. CONTROLS AND PROCEDURES

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2014. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2015 our disclosure controls and procedures were effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(See Note 12 of Item 1 Financial Statements regarding current litigation.)

ITEM 5. OTHER INFORMATION

Gary Vecchiarelli Employment Agreement and Indemnification Agreement

On November 14, 2015, the Company entered into a new employment agreement (the "Vecchiarelli Agreement") with Gary Vecchiarelli to serve as Chief Financial Officer of the Company. Mr. Vecchiarelli will have duties and responsibilities assigned by the Company's Board of Directors. The Vecchiarelli Agreement is effective as of July 1, 2015 (the "Effective Date"), continues through December 31, 2018, and provides for an annual base salary ("Base Salary") of $180,000. Mr. Vecchiarelli will also receive the customary employee benefits paid by the Company. Mr. Vecchiarelli is also eligible to receive incentive compensation as follows:

Fiscal Year 2015. Mr. Vecchiarelli shall be eligible to receive a discretionary bonus (the "2015 Bonus") of up to fifty percent (50%) of the Base Salary, based on Mr. Vecchiarelli's individual performance; provided, however that the 2015 Bonus shall not be less than ten percent (10%) of Mr. Vecchiarelli's Base Salary. The 2015 Bonus shall be paid on or before March 15 of the year following the fiscal year in which such bonus was earned.

Fiscal Years 2016 - 2018. Mr. Vecchiarelli shall be eligible to receive an annual discretionary bonus (the "2016-2018 Bonuses") during each of the fiscal years 2016, 2017 and 2018 of up to fifty percent (50%) of the Base Salary; provided, however that none of the 2016-2018 Bonuses shall be less than ten percent of Mr. Vecchiarelli's Base Salary. The 2016-2018 Bonuses shall be determined as follows: (i) twenty percent (20%) of each annual bonus will be based on Mr. Vecchiarelli's individual performance; and (ii) eighty percent (80%) of each annual bonus will be based on corporate performance objectives, each as determined by the Company's Board. The corporate performance objectives shall be identical to those performance objectives used to determine the compensation of Company's Chief Executive Officer. The 2016-2018 Bonuses shall each be paid on or before March 15 of the year following the fiscal year in which such bonus was earned. In the event that Mr. Vecchiarelli separates from Employer after December 31, 2018, Mr. Vecchiarelli is entitled to the bonus accrued for the 2018 fiscal year.

Stock Option Grant. In consideration of making the covenants to not compete set forth in the Vecchiarelli Agreement, Mr. Vecchiarelli was granted an option to purchase up to 150,000 shares of the Company's common stock with a strike price equal to the price per share of the Company's common stock as reported on OTC Markets on the date of signing the Vecchiarelli Agreement, which option vests as follows: (i) as to the first 25,000 shares of stock, on June 30, 2016, (ii) as to the next 25,000 shares of stock, on December 31, 2016, (iii) as to the next 25,000 shares of stock, on June 30, 2017, (iv) as to the next 25,000 shares of stock, on December 31, 2017, and (v) as to the final 25,000 shares of stock, on June 30, 2018, all pursuant to the terms of a Stock Option Grant Agreement by and between the Company and Mr. Vecchiarelli

Restricted Stock Grant. In consideration of making the covenants to not compete set forth in the Vecchiarelli Agreement Mr. Vecchiarelli was granted a total of 150,000 shares of the Company's common stock, which shares of stock vest as follows: (i) as to the first 25,000 shares of stock, on June 30, 2016, (ii) as to the next 25,000 shares of stock, on December 31, 2016, (iii) as to the next 25,000 shares of stock, on June 30, 2017, (iv) as to the next 25,000 shares of stock, on December 31, 2017, and (v) as to the final 25,000 shares of stock, on June 30, 2018, all pursuant to the terms of a Restricted Stock Grant Agreement by and between the Company and Mr. Vecchiarelli.

If Mr. Vecchiarelli's employment is terminated by the Company for any reason other than Mr. Vecchiarelli's death or Disability or other than for Cause (as those terms are defined in the Vecchiarelli Agreement), or if Mr. Vecchiarelli's employment is terminated without Cause following a "Change of Control" (as defined in the Vecchiarelli Agreement), subject to Mr. Vecchiarelli entering into and not revoking a release of claims in favor of the Company and its affiliates and Mr. Vecchiarelli fully complying with the covenants set forth in the Vecchiarelli Agreement, Mr. Vecchiarelli shall be entitled to the following benefits:

(A) Cash severance payments equal in the aggregate to nine (9) months of Mr. Vecchiarelli's annual base salary at the time of termination, payable in accordance with the Company's customary payroll practices as in effect from time to time.

(B) Continuation of Mr. Vecchiarelli's medical and health insurance benefits for a period equal to the lesser of (i) nine (9) months or (ii) the period ending on the date Mr. Vecchiarelli first becomes entitled to medical and health insurance benefits under any plan maintained by any person for whom Mr. Vecchiarelli provides services as an employee or otherwise.

(C) In addition, solely if Mr. Vecchiarelli is terminated without Cause following a "Change of Control," Mr. Vecchiarelli will be entitled to (i) cash severance payments equal in the aggregate to twelve (12) months of Mr. Vecchiarelli's annual base salary at the time of termination, and (ii) any unvested stock options granted to Mr. Vecchiarelli pursuant to the Vecchiarelli Agreement shall accelerate and immediately vest.

The Company also entered into an indemnification agreement (the "Indemnification Agreement") with Mr. Vecchiarelli on November 14, 2015 whereby the Company agreed to indemnify Mr. Vecchiarelli in certain instances. The Indemnification Agreement provides, among other things, for indemnification to the fullest extent permitted by law and the articles of incorporation, as amended, and bylaws, as amended, against (i) any and all expenses and liabilities, including judgments, fines, penalties, interest and amounts paid in settlement of any claim with the Company's approval and counsel fees and disbursements, and (ii) any liabilities incurred as a result of acting on behalf of the Company (as a fiduciary or otherwise). The Indemnification Agreement provides for the advancement or payment of expenses to the indemnitee and for reimbursement to the Company if it is found that such indemnitee is not entitled to such indemnification under applicable law and the Company's articles of incorporation and bylaws, each as amended.

The foregoing summaries of the terms of the Vecchiarelli Agreement and the Indemnification Agreement are qualified in their entirety to the actual terms of the agreements, which are attached hereto as Exhibit 99.2 and 99.3, respectively, and are incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
99.1	Promissory Note Restructuring Agreement dated August 10, 2015 between Carpathia Associates, LLC and Galaxy Gaming, Inc.
99.2	Gary Vecchiarelli Employment Agreement dated November 14, 2015
99.3	Gary Vecchiarelli Indemnification Agreement dated November 14, 2015
101	Financials in XBRL format

SIGNATURES

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

Galaxy Gaming, Inc.

Date: November 16, 2015

By: /s/ ROBERT B. SAUCIER
Robert B. Saucier
Chief Executive Officer

Galaxy Gaming, Inc.

Date: November 16, 2015

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:

Signature Title Date

/s/ ROBERT B. SAUCIER Chief Executive Officer (Principal Executive Officer) November 16, 2015

Robert B. Saucier

/s/ GARY A. VECCHIARELLI Chief Financial Officer (Principal Financial and Accounting Officer) November 16, 2015

Gary A. Vecchiarelli

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