

Galaxy Gaming, Inc.  
Form 10-K  
April 02, 2018  
@Jete062

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

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.)

6767 Spencer Street – Las Vegas, NV 89119  
(Address of principal executive offices) (Zip Code)  
(702) 939-3254  
(Registrant’s telephone number, including area code)

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

Title of each class

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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

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

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 No

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

Indicate by check mark 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

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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth Company

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period

for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act. 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 \$9,089,180. Shares of common stock

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held by each officer and each person known to the registrant to own 10% or more of the outstanding voting securities of the registrant were excluded in that such persons may be deemed to be affiliates. This determination of affiliation status is not a determination for other purposes. The registrant has one class of securities, its common stock.

As of April 2, 2018, the registrant had 39,765,591 shares of common stock outstanding.

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GALAXY GAMING, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017

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Unless the context indicates otherwise, references to “Galaxy Gaming,” “we,” “us,” “our” or the “Company,” refer to Galaxy Gaming, Inc., a Nevada corporation, the company filing this report.

#### 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. Our products and services are designed to enhance the player's experience and increase the profitability of our clients and include the design, development, manufacture and acquisition of proprietary table games and associated technology, platforms, systems, expert consultation and other services.

#### History and Development of Galaxy Gaming

In 1997, Galaxy Gaming Corporation ("GGCORP") was formed and distributed a side bet for the game of blackjack known as Horseshoe Blackjack. GGCORP later modified the invention, changed its name to Lucky Ladies and filed for a patent, which was later granted.

In 2002, Galaxy Gaming, LLC ("GGLLC") acquired the business and assets of GGCORP. Lucky Ladies remained GGLLC's only product until late 2002, when it debuted a new casino poker game called Texas Shootout. This game quickly became popular with casinos and their customers. GGLLC later increased its sales force, expanded its distribution channels and introduced new products and services using reinvested earnings.

Galaxy Gaming, Inc. ("GGINC") was formed in 2006 and subsequently acquired the assets and business operations of GGLLC.

In 2009, GGINC executed a share exchange and reverse merger with Secured Diversified Investment, Ltd. ("SDI"). After the reverse merger, SDI merged with its wholly-owned subsidiary, GGINC, pursuant to Nevada Revised Statutes 92A.180 and changed the name of the company formerly known as SDI to "Galaxy Gaming, Inc." which remains the operating company as of the date of this report.

#### Products and Services

Casinos use our proprietary products and services to enhance their gaming floor operations and improve their profitability, productivity and security, as well as to offer popular cutting-edge gaming entertainment content and technology to their players. We market our products and services to land-based, riverboat, cruise ship and internet gaming companies located in North America, the Caribbean, Central America, the British Isles, Europe and Africa and to cruise ships and internet gaming sites worldwide. We currently serve over 600 casinos that use our enhancements on approximately 6,000 gaming tables. Additional information regarding our products and services may be found on our website, [www.galaxygaming.com](http://www.galaxygaming.com). Information found on the website should not be considered part of this report.

**Proprietary Table Games.** Casinos use 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. Typically, Proprietary Table Games are grouped into two product types referred to as "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 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 High Card Flush, Three Card Poker and Texas Shootout. Generally, Premium Games generate higher revenue per table placement than the Side Bet games.

Enhanced Table Systems. Enhanced Table Systems are electronic enhancements used on casino table games to add to player appeal and to enhance game security. An example in this category is our Bonus Jackpot System (“BJS”), an advanced electronic system installed on gaming tables designed to collect data by detecting player wagers and other game activities. This information is processed and used to improve casino operations by evaluating game play, to improve dealer efficiency and to reward players through the offering of jackpots and other bonusing mechanisms. Typically, the BJS system includes an electronic video display, known as TableVision, which shows game information designed to generate player interest and to promote various aspects of the game. The BJS system is also used to network numerous gaming tables together into a common system either within a casino or through the interconnection of multiple casinos, which we refer to as our Inter-Casino Jackpot System.

e-Tables. In 2011, we entered into a licensing agreement (the “TMAX Agreement”) with TableMAX Corporation (“TMAX”), a provider of electronic table games and platforms headquartered in Las Vegas, Nevada, and obtained exclusive worldwide rights (excluding one international territory and two U.S. states) to the TableMAX e-Table system and certain related game titles. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. Effective December 29, 2017, we entered into a First Amendment to the TMAX Agreement (the First Amendment”) to, among other things, allow us to retain all net profits generated after the date of the First Amendment and terminate the TMAX Agreement effective upon the earliest of (1) December 31, 2019; (2) termination of game placements at the remaining TableMax clients; or (3) regulatory approval received by



TMAX to service the remaining clients independently. The parties also executed a related settlement and release agreement (the “Settlement and Release Agreement”). In January 2018, in connection with the First Amendment and the Settlement and Release Agreement, we paid the previously accrued amount of \$774,645 to an assignee of TMAX.

### Significant 2017 Business Developments

On May 1, 2017, Harry C. Hagerty was appointed as our Secretary, Treasurer and Chief Financial Officer. On July 24, 2017, Robert B. Saucier resigned from his positions as Chairman of the Board of Directors (the “Board”), Chief Executive Officer (“CEO”) and President in order to aid us in our expanded regulatory jurisdictional ambitions. Effective July 24, 2017, the Board appointed Todd P. Cravens to serve as President and CEO. On July 26, 2017, the Board appointed Mark A. Lipparelli as a member of the Board to fill a newly-created board seat and elected Mr. Lipparelli to serve as Chairman of the Board. See Note 2 to our audited financial statements included in Item 8. “Financial Statements and Supplementary Data” for more detail.

### Recurring Revenue & Gross Margins

The majority of our clients contract with us to use our services on a month-to-month basis with typically a 30 – 45 day termination notice requirement. We invoice our clients monthly, either in advance for unlimited use or in arrears for actual use, depending on the product or contract terms. Such recurring revenues accounted for over 99% of our total revenues in 2017 and generally have few direct costs thereby generating high gross profit margins. We do not report “gross profit” in our statements of operations included in this report. Instead, gross profit would be comparable to “revenues” minus “cost of ancillary products and assembled components,” both of which are presented in our statements of operations.

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 report.

### STRATEGY

We believe that 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 and reputation, we anticipate adding to new product lines and services that complement our overall strategy and enhance our market presence.

Our long-term business strategy focuses on increasing our value to casino clients by offering them enhanced services and support, and by producing innovative products and game play methodologies that their players enjoy. We believe that by increasing the value of our products and services to clients, we can continue to build our recurring revenues in both existing and new markets. To achieve this objective, we employ the following strategies:

1. Expand our inventory of services, products and technologies;
2. Increase our per unit price point by leveraging our Enhanced Table Systems;
3. Expand the number of markets we serve.

Expand our inventory of services, products and technologies. Our strategy is to be an important vendor to casino operators by offering a complete and comprehensive portfolio of services, games, products, systems, technologies and methodologies for casino table games. 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.

Increase our per unit price point by leveraging our Enhanced Table Systems. Our Enhanced Table Systems provide us with the opportunity to 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.

Expand the number of markets we serve. There are table games markets in North America that we do not serve or in which we cannot offer our full suite of products and services. In general, this is because we are not licensed to serve casinos in that market or the license we have limits the products and services we can provide. Consequently, we are seeking to increase the number of jurisdictions in which we are licensed and to upgrade those licenses that limit our product and service offering. We intend to expand in table games markets outside of North America. Finally, we aim to expand by offering our products and services in markets beyond traditional table games. To this end, we have been active in deploying our game content into the legal on-line gaming market as well as making our content available on electronic gaming machines.

## COMPETITION

We compete with several companies that develop and provide proprietary table games, electronic gaming platforms, game enhancements and related services. We believe that the principal competitive factors in our market include products and services that appeal to casinos and players, jurisdictional approvals and a well-developed sales and distribution network.

We believe that our success will depend upon our ability to remain competitive in our field. Competition can be based on price, brand recognition, player appeal and the strength of underlying intellectual property. Larger competitors may have longer operating histories, greater brand recognition, more firmly established supply relationships, superior capital resources, distribution and product inventory than we do. Smaller competitors may be 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. We compete with others in efforts to obtain or create innovative products, obtain financing, acquire other gaming companies, and license and distribute products. We compete on these bases, as well as on the strength of our sales, service and distribution channels.

Our competitors include, but are not limited to, Scientific Games Corporation; Play AGS, Inc.; TCS/John Huxley; and Masque Publishing. Moreover, we expect additional competitors to emerge in the future. There can be no assurances that we will be able to compete effectively in the future and failure to compete successfully in the market could have a material adverse effect on our business.

## 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 functions 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

We strive to develop and maintain a robust pipeline of new products and services to bring to market. We employ a staff of hardware and software engineers, graphic artists and game developers at our corporate offices to support, improve and upgrade our products and to develop and explore other potential table game products, technologies, methodologies and services. We also use contracted third party developers and engineers.

We incurred \$488,829 and \$353,816 in research and development expenditures during 2017 and 2016, respectively. Consistent with our increased focus on development of new product and services, we anticipate significant increases in research and development expenditures in 2018.

## INTELLECTUAL PROPERTY

Our products and the intellectual property associated with them are typically protected by patents, trademarks, copyrights and non-compete agreements. However, 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 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. See “Item 3. Legal Proceedings” and Note 11 of our audited financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2016.

## 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, are 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 product approvals for gaming equipment manufacturers; and
- 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. 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 also have authorizations with certain Native American tribes throughout the United States that 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. 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 (table games and slot machines, for example), 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.

The nature of the industry and our worldwide operations make the license application 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.

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. Additionally, we license and/or lease our products through licensed distributors.

In addition to what may be required of our officers, board members, key employees and substantial interest holders, any of our stakeholders, including but not limited to investors, may be subject to regulatory requests and suitability findings. Failure to comply with regulatory requirements or obtaining a finding of unsuitability by a regulatory body could result in a substantial or total loss of investment.

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.

## EMPLOYEES

We have 37 full-time employees, including executive officers, management personnel, accounting personnel, office staff, sales staff, service technicians and research and development personnel. As needed, we also employ part-time and temporary employees and 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 6767 Spencer Street, Las Vegas, Nevada, where we currently occupy approximately 24,000 square feet of combined office and warehouse space and pay approximately \$19,000 in monthly rent to a third party pursuant to a lease entered into effective in 2014. We also maintain a small warehouse and service facility in Kent, Washington. See Note 11 to our audited financial statements included in Item 8 “Financial Statements and Supplementary Data” 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 to our audited financial statements included in Item 8.

## 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") under the ticker 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.

Quarter Ended	2017		2016	
	High (\$)	Low (\$)	High (\$)	Low (\$)
March 31,	0.67	0.52	0.22	0.12
June 30,	0.78	0.59	0.39	0.18
September 30,	1.17	0.70	0.52	0.26
December 31,	1.44	1.05	0.64	0.46

The Securities and Exchange Commission (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 buying or selling our securities.

#### HOLDERS OF OUR COMMON STOCK

As of April 2, 2018, we had 39,765,591 shares of our common stock issued and outstanding and 47 shareholders of record.

#### 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; or
- 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 Colonial Stock Transfer Company, Inc. located at 66 Exchange Place, 1<sup>st</sup> Floor, Salt Lake City, UT 84111. Their telephone number is (801) 355-5740.

## RECENT SALES OF UNREGISTERED SECURITIES

We have not yet adopted any formal equity compensation plans. During the three months ended December 31, 2017, we issued options to purchase 75,000 shares of common stock to members of our Board of Directors, which were valued at \$57,472 using the Black-Scholes model. In each of the transactions listed above, the securities were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), and rules and regulations promulgated thereunder. None of the transactions involved a public offering.

## ITEM 6. SELECTED FINANCIAL DATA

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

## 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, 2017 and 2016 and for the years ended December 31, 2017 and 2016. 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 and services for the gaming industry for placement on the casino floor. Our products and services primarily relate to licensed casino operators’ table games activities and focus on either increasing their profitability, productivity and security or expanding their gaming entertainment offerings in the form of proprietary table games, electronically enhanced table game platforms, fully-automated electronic tables and other ancillary equipment. Our products and services are offered in highly regulated markets throughout the world. Our products and services are manufactured at our headquarters and manufacturing facility in Las Vegas, Nevada, as well as outsourced for certain sub-assemblies in the United States.

Results of operations for the years ended December 31, 2017 and 2016. For the year ended December 31, 2017, we generated gross revenues of \$14,855,576 compared to \$12,450,712 in 2016, representing an increase of \$2,404,864, or 19.3%. This increase was primarily attributable to higher revenue from: (i) Bonus Jackpot System due to more game placements; (ii) Premium Games such as High Card Flush and Heads Up Hold ’em, which command a higher price point per unit; (iii) Side Bet games such as Bonus Craps and 21+3; and (iv) internet-based gaming activities.

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Selling, general and administrative expenses were \$9,057,025 in 2017 compared to \$6,730,215 in 2016, representing an increase of \$2,326,810, or 34.6%. Significant year-over-year changes in selling, general and administrative expenses are as follows:

	Year ended	
	December 31,	
	2017	2016
Compensation	\$3,829,310	\$2,273,318
Legal and professional fees	\$1,972,514	\$1,639,764

Employee compensation and related expenses increased as a result of our investments in personnel as we continue to grow and attract new talent, as well as higher sales commissions due to increased revenues in 2017. Professional and compliance fees have increased due to on-going regulatory applications in various jurisdictions.

Research and development expenses were \$488,829 in 2017 compared to \$353,816 in 2016. This increase was primarily due to increased costs associated with testing our products currently in development.

Share-based compensation expenses was \$813,480 in 2017, compared to \$145,732 in 2016, representing an increase of \$667,748, or 458.2%. The increase was primarily due to stock options and restricted shares of common stock issued in 2017 to executive officers, board members and independent contractors, as well as an increase in our stock price during 2017.

Income from operations decreased \$885,015, or 26.1%, to \$2,503,624 in 2017 compared to \$3,388,639 in 2016. This decrease was primarily attributable to higher selling, general and administrative and share-based compensation expenses.

Settlement income was zero in 2017 compared to \$697,214 in 2016. On July 11, 2016, we entered into a settlement agreement with Red Card Gaming, Inc. and AGS, LLC ("AGS") to settle all claims and counter-claims related to contract dispute litigation. As a result of the settlement agreement, we recognized settlement income of \$697,214 in 2016, which includes a \$350,000 payment from AGS and a release of \$347,214 in accrued contingent consideration then owed to AGS.

Total interest expense increased \$487,577, or 40.3% to \$1,696,737 for 2017 compared to \$1,209,160 in 2016. The increase in interest expense is primarily due to the 2016 Term Loan Facility that was put in place in August 2016.

During 2016, we repaid in full the PTG Notes and wrote off the related unamortized debt discounts, which resulted in a loss of extinguishment of debt of \$515,037.

The change in estimated fair value of warrants issued in connection with the Term Loan resulted in other expense of \$409,717 for 2017 compared to \$126,897 in 2016. The estimated fair value is determined using the Black-Scholes pricing model, subject to a ceiling on the maximum amount we may have to pay to repurchase the warrants under certain circumstances.

The income tax provision was \$564,573 in 2017 compared to \$770,723 in 2016. This change was primarily attributable to (1) the decrease in income before provision for income taxes; partially offset by (2) additional income tax provision related to an amendment of the 2015 federal tax return in 2017; (3) the permanent book-to-tax difference generated by changes in the estimated fair value of the warrant liability as of and for the year ended December 31, 2017; and (4) a reduction in the value of our deferred tax assets due to a decrease in the federal statutory corporate income tax rate.

**Adjusted EBITDA.** Adjusted EBITDA includes adjustments to net income to exclude interest, taxes, depreciation, amortization, share based compensation, loss on extinguishment of debt, foreign currency exchange gains, change in estimated fair value of warrant liability, and settlement income. Adjusted EBITDA is not a measure of performance defined in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). However, Adjusted EBITDA is used by management to evaluate our operating performance. Management believes that disclosure of the Adjusted EBITDA metric offers investors, regulators and other stakeholders a view of our operations in the same manner management evaluates our performance. When combined with U.S. GAAP results, management believes Adjusted EBITDA provides a comprehensive understanding of our financial results. Adjusted EBITDA should not be considered as an alternative to net income or to net cash provided by operating activities as a measure of operating results or of liquidity. It may not be comparable to similarly titled measures used by other companies, and it excludes financial information that some may consider important in evaluating our performance. A reconciliation of U.S. GAAP net income from operations to Adjusted EBITDA is as follows:

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	Years ended December	
	31,	
Adjusted EBITDA Reconciliation:	2017	2016
Net (loss) income	\$(11,423 )	\$1,765,202
Interest income	(188 )	(202 )
Interest expense	1,696,737	1,209,160
Income tax provision	564,573	770,723
Depreciation and amortization	1,766,541	1,698,033
Share based compensation expense	813,480	145,732
Loss on extinguishment of debt	—	515,037
Foreign currency exchange gains	(155,792 )	(300,964 )
Change in estimated fair value of warrant liability	409,717	126,897
Settlement income	—	(697,214 )
Adjusted EBITDA	\$5,083,645	\$5,232,404

Liquidity and capital resources. We intend to fund our continuing operations through increased sales and cash flow. However, the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements. There can be no assurance that we will be successful in raising additional funding, if necessary, and even if we are successful, it may not be on advantageous terms to us. If we are not able to secure additional funding, the implementation of our business plan could be impaired. In addition, we may incur higher capital expenditures in the future to expand our operations. We may from time to time acquire products and businesses complementary to our business. We may also incur significant expenses when applying for new licenses or in complying with current jurisdictional requirements. As a public entity, we may issue shares of our common stock and preferred stock in private or public

offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

As of December 31, 2017, we had total current assets of \$6,770,189 and total assets of \$19,114,163. This compares to \$5,148,435 and \$19,011,945, respectively, as of December 31, 2016. The increase in current assets as of December 31, 2017 was primarily attributable to an increase in cash and cash equivalents, accounts receivable, net and prepaid expense and other assets. Cash increased due to reduced principal payments on the Term Loan as compared to the PTG Notes, partially offset by cash used to pay off the Related Party Note Payable in August 2017. Our total current liabilities increased from \$4,708,685 as of December 31, 2016 to \$4,869,335 as of December 31, 2017. Our business model continues to be profitable and we have several options to ensure we are able to meet our short-term and long-term obligations.

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

At December 31, 2017, we do not have any available third-party lines or letters of credit or any written or oral commitments from officers or shareholders to provide us with loans or advances to support our operations or fund potential acquisitions.

Our operating activities provided \$2,825,866 in cash for the year ended December 31, 2017, compared to \$4,167,531 for the year ended December 31, 2016. The decrease in operating cash flow was primarily due to (1) decreases in net income and (2) increases in non-cash addbacks due to higher share-based compensation and higher expense related to changes in estimated fair value of warrant liability in 2017 as compared to 2016, partially offset by loss on extinguishment of debt recorded in 2016.

Additionally, investing activities used cash of \$100,617 for the year ended December 31, 2017, compared to \$82,702 for the year ended December 31, 2016. This increase in cash used in investing activities was due to investment in intangible assets in 2017 and higher expenditure on property and equipment.

Cash used in financing activities during the year ended December 31, 2017 was \$1,664,445 compared to \$2,318,805 for the year ended December 31, 2016. Cash used in financing activities consisted of principal payments towards long-term debt and capital leases and payments of debt issuance costs, partially offset by the proceeds received from stock option exercises.

**Critical Accounting Policies.** The discussion of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. GAAP. Critical accounting policies are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations. See Note 3 to our financial statements included in Item 8. "Financial Statements and Supplementary Data" for further detail on these critical accounting policies.

Off balance sheet arrangements. As of December 31, 2017, there were no off-balance sheet arrangements.

Significant equipment. While we anticipate additional purchases of furniture and equipment in conjunction with our personnel expansion, we do not anticipate such purchases to be material.

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

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



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Galaxy Gaming, Inc.

Las Vegas, Nevada

**Opinion on the Financial Statements.** We have audited the accompanying balance sheets of Galaxy Gaming, Inc. (the Company) as of December 31, 2017 and 2016, and the related statements of operations, changes in stockholders' equity and cash flows, for each of the two years in the period ended December 31, 2017, and the notes to the financial statements (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States (U.S.).

**Basis for Opinion.** These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

/s/ Piercy Bowler Taylor & Kern

Piercy Bowler Taylor & Kern

Certified Public Accountants

We have served as the Company's auditor since 2016

Las Vegas, Nevada

April 2, 2018

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GALAXY GAMING, INC.

BALANCE SHEETS

December 31, 2017 AND 2016

ASSETS	2017	2016
Current assets:		