

Galaxy Gaming, Inc.
Form 10-Q
November 14, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission file number: 000-30653

Galaxy Gaming, Inc.

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

Nevada

(State or other jurisdiction of incorporation or organization)

20-8143439

(IRS Employer Identification No.)

6980 O'Bannon Drive, Las Vegas, Nevada 89117

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(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 No

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

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

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

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

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

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GALAXY GAMING, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

- 4 Balance Sheets as of September 30, 2013 and December 31, 2012 (unaudited);
- 5 Statements of Operations for the three and nine months ended September 30, 2013 and 2012 (unaudited);
- 6 Statements of Comprehensive Income (Loss) for the nine months ended September 30, 2013 and 2012 (unaudited);
- 7 Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited);
- 8-20 Notes to Financial Statements (unaudited);

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

	September 30, 2013	December 31, 2012
	(Unaudited)	(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 194,995	\$ 398,424
Restricted cash	242,087	216,964
Accounts receivables, net allowance for bad debts		
	1,223,431	1,026,768
of \$36,770 and \$44,223		
Prepaid expenses	37,187	29,443
Inventory	350,032	217,772
Note receivable – related party, current portion	17,942	17,155
Deferred tax asset	142,613	341,823
Other current assets	84,925	42,375
Total current assets	2,293,212	2,290,724
Property and equipment, net	49,614	43,399
Products leased and held for lease, net	62,620	47,433
Intangible assets, net	17,208,738	18,550,416
Goodwill	1,091,000	1,091,000
Note receivable – related party, net of current portion	365,356	371,106
Deferred income taxes	232,241	—
Other assets, net	8,150	10,868
Total assets	\$ 21,310,931	\$ 22,404,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 336,572	\$ 286,983
Accrued expenses	269,054	251,734
Deferred revenue	496,335	440,342
Jackpot liabilities	250,111	222,109
Notes payable, current portion	2,758,355	2,360,930
Total current liabilities	4,110,427	3,562,098
Notes payable, net of debt discount, net of current portion	16,182,576	18,250,864
Deferred income taxes	27,024	—
Total liabilities	20,320,027	21,812,962
Commitments and Contingencies (See Note 11)		

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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	38,311	38,311
38,310,591 shares issued and outstanding		
Additional paid-in capital	2,117,451	2,113,097
Stock warrants	401,827	401,827
Accumulated deficit	(1,397,501)	(1,565,505)
Accumulated other comprehensive income (loss)	(169,184)	(395,746)
Total stockholders' equity	990,904	591,984
Total liabilities and stockholders' equity	\$21,310,931	\$22,404,946

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

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

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenue:				
Product leases and royalties	\$2,025,665	\$1,856,984	\$5,846,471	\$5,250,055
Product sales and service	110,394	16,544	129,692	59,396
Total revenue	2,136,059	1,873,528	5,976,163	5,309,451
Costs and expenses:				
Cost of ancillary products and assembled components	14,322	18,001	73,805	74,389
Selling, general and administrative	1,217,376	994,537	3,161,441	3,155,617
Research and development	107,948	84,199	347,228	230,217
Depreciation	13,487	5,108	34,927	47,845
Amortization	397,226	424,641	1,191,678	1,179,521
Impairment of intangible assets	150,000	—	150,000	—
Total costs and expenses	1,900,359	1,526,486	4,959,079	4,687,589
Income (loss) from operations	235,700	347,042	1,017,084	621,862
Other income (expense):				
Interest income	5,722	9,918	17,395	20,507
Interest expense	(260,350)	(227,484)	(775,910)	(672,598)
Gain on settlement	—	—	—	50,000
Total other income (expense)	(254,628)	(217,566)	(758,515)	(602,091)
Income (loss) before provision for income taxes	(18,928)	129,476	258,569	19,771
Benefit (provision) for income taxes	(2,055)	—	(90,565)	—
Net income (loss)	\$(20,983)	\$129,476	\$168,004	\$19,771
Basic income (loss) per share	\$(0.00)	\$0.00	\$0.00	\$0.00
Diluted income (loss) per share	\$(0.00)	\$0.00	\$0.00	\$0.00
Weighted average shares outstanding:				
Basic	38,310,591	38,310,591	38,310,591	38,052,008
Diluted	38,310,591	40,019,044	38,310,591	40,551,927

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

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GALAXY GAMING, INC.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	FOR THE NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2013	2012
		(Unaudited)(Unaudited)
Net income	\$ 168,004	\$ 19,771
Other comprehensive income (loss):		
Foreign currency translation adjustments	226,562	(225,331)
Total comprehensive income (loss)	\$ 394,566	\$ (205,560)

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

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

STATEMENTS OF CASH FLOWS

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012 (Restated)
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income for the period	168,004	\$19,771
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	34,927	47,845
Amortization expense	1,191,678	1,179,521
Amortization of debt discount	156,474	156,474
Provision for bad debts	—	15,000
Deferred income tax provision	90,565	—
Share-based compensation	4,354	89,701
Impairment of intangible assets	150,000	—
Changes in operating assets and liabilities:		
(Increase) in restricted cash	(25,123)	(187,523)
(Increase) in accounts receivable	(193,608)	(254,336)
(Increase) decrease in other current assets	(42,550)	8,867
(Increase) in inventory	(164,136)	(29,186)
(Increase) decrease in prepaid expenses	(7,744)	29,984
Increase in accounts payable	48,841	54,243
Increase (decrease) in accrued expenses	16,990	(64,585)
Increase in deferred revenue	55,993	101,015
Increase in jackpot liabilities	28,002	187,040
Net cash provided by operating activities	1,512,667	1,353,831
Cash flows from investing activities:		
Acquisition of property and equipment	(21,735)	(16,584)
Increase in note receivable	—	(6,030)
Payments received on note receivable	4,963	—
Net cash used in investing activities	(16,772)	(22,614)
Cash flows from financing activities:		
Principal payments on notes payable – related party	—	(469)
Principal payments on notes payable	(1,702,937)	(1,371,445)
Net cash used in financing activities	(1,702,937)	(1,371,914)
Effect of exchange rate changes on cash	3,613	—
Net decrease in cash and cash equivalents	(203,429)	(40,697)
Cash and cash equivalents – beginning of period	398,424	182,907
Cash and cash equivalents – end of period	194,995	\$142,210

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Supplemental cash flow information:

Cash paid for interest	515,560	\$505,083
Inventory transferred to leased assets	31,876	\$—
Cash paid for income taxes	—	\$—

Supplemental non-cash financing activities information:

Effect of exchange rate on note payable in foreign currency	124,400	\$225,331
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The accompanying notes are an integral part of the financial statements.

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GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

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

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

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

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

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

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

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

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2008, we acquired territory rights from an outside sales representative to sell and distribute in the State of California for \$150,000. The purchase price was fully allocated to territory intangible assets and assigned an indefinite life. As of September 2013, we discontinued our business relationship with tribal casinos in California as a result of a notice received from the California Bureau of Gambling Control. See Note 11. Accordingly, we recorded a \$150,000 impairment charge to reduce the carrying value of the intangible asset to its estimated fair value during the three month period ended September 30, 2013.

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

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. As of the nine months ended September 30, 2013 and 2012 we had revenues from one client account for 15.7% and 12.7% of total revenues, respectively. The amounts in accounts receivable related to this significant client at September 30, 2013 and December 31, 2012 was approximately \$224,000 and \$132,000, respectively.

Revenue recognition. Revenue is primarily derived from the licensing of our products and intellectual property. Consistent with our strategy, revenue is generated from negotiated month-to-month recurring licensing fees or the performance of our products, or both. Revenue from the sale of lifetime licenses, under which we have no continuing obligation, is recorded on the effective date of the license agreement. Revenue from the sale of equipment or ancillary products is recorded in accordance with the contractual shipping terms.

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

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

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

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

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

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

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

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

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

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

outstanding stock options and warrants, if applicable, during the year, using the treasury stock method.

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

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

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

Recently adopted accounting standards - adopted

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

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

Recently adopted accounting standards – not adopted

In March 2013, the FASB issued an ASU requiring the release of cumulative translation adjustment into net income when an entity either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a foreign subsidiary. This ASU will be effective prospectively for our 2014 first quarter and is not expected to have a material impact on our financial statements.

NOTE 3. NOTE RECEIVABLE – RELATED PARTY

The note receivable balance was as follows:

	September 30, 2013	December 31, 2012
Note receivable	\$383,298	\$388,261
Less: current portion	(17,942)	(17,155)
Total long-term note receivable	\$365,356	\$371,106

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

Interest income associated with this note receivable was \$17,114 and \$18,985 for the nine months ended September 30, 2013 and 2012, respectively. At September 30, 2013, there was an interest receivable balance of \$11,741 which is included in other current assets.

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

NOTE 4. PREPAID EXPENSES

Prepaid expenses consisted of the following at:

	September 30, 2013	December 31, 2012
IT system	\$ 15,451	\$ 9,065
Trade show expense	7,588	4,520
Professional services	4,975	3,000
Property taxes	4,483	—
Inventory costs	2,520	2,005
Other prepaid expenses	2,170	2,757
Insurance	—	8,096
Total prepaid expenses	\$ 37,187	\$ 29,443

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Inventory consisted of the following at:

	September 30, 2013	December 31, 2012
Raw materials and component parts	\$ 191,777	\$ 109,637
Finished goods	115,974	80,291
Work-in-process	75,176	60,739
Subtotal	382,927	250,667
Less: inventory reserve	(32,895)	(32,895)
Total inventory	\$ 350,032	\$ 217,772

NOTE 6. PROPERTY AND EQUIPMENT

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

	September 30, 2013	December 31, 2012
Furniture and fixtures	\$ 76,031	\$ 73,772
Computer equipment	69,042	51,516
Office equipment	12,270	10,320
Leasehold improvements	6,367	6,367
	163,710	141,975
Less: accumulated depreciation	(114,096)	(98,576)
	\$ 49,614	\$ 43,399

Included in depreciation expense was \$15,520 and \$13,661 for the nine months ended September 30, 2013 and 2012, respectively.

NOTE 7. PRODUCTS LEASED AND HELD FOR LEASE

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

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	September 30, 2013	December 31, 2012
Enhanced table systems	\$130,449	\$98,573
Less: accumulated depreciation	(67,829)	(51,140)
Products leased and held for lease, net	\$62,620	\$47,433

Included in depreciation expense was \$16,689 and \$22,694 related to products leased and held for lease for the nine months ended September 30, 2013 and 2012, respectively.

NOTE 8. INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS

Intellectual property and intangible assets consisted of the following at:

	September 30, 2013	December 31, 2012
Intellectual property	\$16,355,967	\$16,355,967
Customer relationships	3,400,000	3,400,000
Non-compete	660,000	660,000
Territory rights	—	150,000
	20,415,967	20,565,967
Less: Accumulated amortization	(3,207,229)	(2,015,551)
	\$17,208,738	\$18,550,416

Amortization expense was \$1,191,678 and \$1,179,521 for the nine months ended September 30, 2013 and 2012, respectively.

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Included in intangible assets at December 31, 2012 are territory rights of \$150,000, which are the result of a 2008 purchase from an outside sales representative to sell and distribute in the State of California. At September 30, 2013, we recorded an impairment of \$150,000 to the territory rights. See Note 11.

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

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

NOTE 9. ACCRUED EXPENSES

Accrued expenses, consisted of the following at:

	September 30, 2013	December 31, 2012
Professional fees	\$93,250	\$63,510
Commissions	76,970	67,026
Salaries & payroll taxes	55,843	65,052
Vacation	40,611	50,949
Accrued interest	2,380	2,505
Other accrued expenses	—	2,692
Trade show expenses	—	—
Total accrued expenses	\$269,054	\$251,734

NOTE 10. NOTES PAYABLE

Notes payable consists of the following at:

	September 30, 2013	December 31, 2012
Note payable – related party	\$1,102,361	\$1,122,915

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Notes payable, net of debt discount - PTG	17,838,570	19,488,879
	18,940,931	20,611,794
Less: Current portion	(2,758,355)	(2,360,930)
	\$ 16,182,576	\$ 18,250,864

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

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

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Maturities of our notes payable are as follows:

Maturities as of September 30,	Total
2014	\$2,758,354
2015	3,364,682
2016	4,066,011
2017	5,392,680
2018	4,185,340
Thereafter	286,600
Total notes payable	\$20,053,667
Less: debt discount	(1,112,736)
Notes payable, net of debt discount	\$ 18,940,931

NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating lease obligations. We lease our offices from a related party that is connected with our CEO. We entered into a lease effective September 1, 2010 for a period of two years with a monthly rental payment of \$10,359. Our lease expired at the end of August 2012 and is currently on a term of month-to-month. In addition to our offices, we rent various temporary storage facilities in the range of \$150 to \$460 a month. All temporary facilities have rental agreements with a monthly term. Total rent expense was \$109,398 and \$106,460 for the nine months ended September 30, 2013 and 2012, respectively.

Based upon our current growth projections, we anticipate either renewing our existing lease agreement and/or expanding our operations with a lease of a second office, or in the alternative, we may elect to not renew our existing lease and seek an entirely new facility sometime in 2014. The amounts shown in the accompanying table reflect our estimates of lease obligations for the twelve months ending 2014 through 2018 and are based upon our current estimates of our projected needs and our forecast of the commercial real estate market in Las Vegas. These estimates are summarized as follows:

Twelve Months Ended September 30,	Annual Obligation (Estimate)
2014	\$209,457
2015	250,134
2016	262,361
2017	275,198
2018	288,678
Thereafter	121,736
Total Estimated Lease Obligations	\$ 1,407,564

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

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

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

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On August 9, 2013, GGCA and our CEO filed a motion for writ of mandate with the Sacramento County Superior Court, asking the Court for a judicial review of the California Commission's ruling. A hearing on the motion has been scheduled for June 13, 2014. There can be no assurances that the judicial review will be successful or that our CEO will be found suitable. In September 2013, we were notified that until this matter is resolved, we are not permitted to conduct business in California. The California, matter has and will subject us to certain increased, material, known and unknown risks and uncertainties of materially adverse effects on our business and/or prospects. Please see the form 8-K, filed by us on July 30, 2013 for further details regarding these risks.

Included in total revenues for the nine months ending September 30, 2013 was approximately \$167,000 sourced from California clients.

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

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

Note 12. STOCKHOLDERS' EQUITY

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

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

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

Note 13. Related Party Transactions

We lease our offices from the Saucier Business Trust, an entity that is related to our CEO. The lease was entered into effective September 1, 2010 for a period of two years requiring a monthly rental payment of \$10,359. Our lease expired at the end of August 2012 and is currently on a term of month-to-month. Total payments made to this related party was \$93,239 for each nine month period ended September 30, 2013 and 2012. The Saucier Business Trust filed for bankruptcy on May 2, 2013 (the "Bankruptcy"), however it is not expected the Bankruptcy will have a direct impact on our tenancy.

We have a note receivable from Abyss Group, LLC, an entity that is related to our CEO. This note receivable was acquired as part of the 2007 asset purchase agreement with GLLC. The note receivable is a ten year unsecured note with a 6% fixed interest rate, monthly principal and interest payments of \$6,598 with the unpaid principal and interest due in February 2017. The terms of the note were amended whereby the monthly principal and interest payment was reduced to \$3,332 and the unpaid principal and interest is due August 2015. The balance as of September 30, 2013 and December 31, 2012 was \$383,298 and \$388,261, respectively. Interest income associated with this note receivable was \$17,114 and \$18,985 for the nine month periods ended September 30, 2013 and 2012, respectively.

We have a note payable to a related party, GLLC, an entity that is controlled by our CEO. The note payable required monthly principal and interest payments of \$9,159, at a fixed interest rate of 7.3% through February 2017, at which time there is a balloon payment due of \$1,003,000. The balance as of the nine month period ended September 30, 2013 and 2012 was \$1,102,361 and \$1,122,915, respectively. This note payable is a result of the asset purchase agreement with GLLC and under the direction of GLLC the payments were to be made on GLLC's behalf directly to Bank of America. As of August 1, 2013, GLLC directed us to begin making payments to Carpathia Associates, LLC ("Carpathia"), an entity related to our CEO. The note agreement remains in the name of GLLC and we have no direct obligation to Bank of America. Additionally, Bank of America has filed a complaint against us. See Note 11 for further details.

Certain administrative, accounting and legal support services are performed by Carpathia. We accrued or paid fees to the related party in the amount of \$3,105 and \$24,175 for the nine months ended September 30, 2013 and 2012, respectively.

Table of Contents**NOTE 14. INCOME TAXES**

Our forecasted effective tax rate at September 30, 2013 is 38.06%, a 38.06% increase from the 0.0% effective tax rate recorded at September 30, 2012. After discrete benefit of (41.47%), the effective tax rate for the nine months ending September 30, 2013 is 35.1%. The discrete benefit is primarily attributable to the recognition of state net operating losses.

Note 15. Stock Warrants and Options

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

A summary of current warrant activity is as follows:

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

Stock options. For the nine months ended September 30, 2013 and 2012, we issued -0- and 285,000 stock options, respectively. Stock options issued to members of our Board of Directors were -0- and 185,000 for the nine months ended September 30, 2013 and 2012, respectively. For our Board of Directors, the stock options were valued at the fair market value of the services performed that resulted in an expense of \$8,000 for the nine months ended September 30, 2012.

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

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

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

A summary of stock option activity is as follows:

	Common Stock Options	Weighted Average Exercise Price
Outstanding – January 1, 2012	615,000	\$ 0.43
Issued	285,000	0.40
Exercised	—	—
Expired	(800,000)	—
Outstanding – December 31, 2012	100,000	0.25
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding – September 30, 2013	100,000	\$ 0.25
Exercisable – September 30, 2013	—	—

Note 16. Asset AcquisitionS AND SIGNIFICANT TRANSACTIONS

Acquisition of Prime Table Games' assets. In October 2011, we executed an asset purchase agreement (the "PTG Agreement") with Prime Table Games LLC and Prime Table Games UK (collectively "Prime Table Games"). Under the terms of the PTG Agreement we acquired over 20 different table games, including *21+3*, *Two-way Hold'em* and *Three*

Card Poker, which are currently played on approximately 500 tables in 200 casinos in the United States, the United Kingdom and in the Caribbean (*Three Card Poker* rights are limited to the British Isles). The intellectual property portfolio includes 36 patents, 11 patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. The two principals of Prime Table Games also executed with us a non-compete agreement.

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

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

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

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

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

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

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

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

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

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

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

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

We are responsible for the losses of the TableMAX Division however, TMAX agreed to reimburse us during the first 12 months from the date of the TMAX Agreement for operating expenses of the TableMAX Division up to a maximum of \$600,000. Subsequent to the 12 months anniversary of the TMAX Agreement, TMAX notified us that they would continue to reimburse us for the losses attributed with the TableMAX Division through December 31, 2012. Net profits from the TableMAX Division will be split between

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TMAX and us on a sliding scale basis dependent upon the number of TableMAX Division table installations and profit results as defined in the TMAX Agreement. While TMAX has not agreed to reimbursement of losses subsequent to December 31, 2012, we have not experienced significant losses attributable to the TableMAX Division.

Included in other current assets at September 30, 2013 is \$69,449, representing reimbursement due from TMAX.

Note 17. Subsequent Events

In accordance with ASC 855-10, we have analyzed our operations subsequent to September 30, 2013 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.

NOTE 18. CORRECTION OF ERRORS AND RESTATEMENTS

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

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

September 30, 2012		Previously	
Financial Statements	Line Item	Corrected	Stated
Balance Sheet	Notes payable, current portion	2,216,028	2,192,095
Balance Sheet	Notes payable, net of debt discount, net of current portion	18,664,938	18,463,539
Balance Sheet	Total liabilities	22,128,164	21,902,833
Balance Sheet	Accumulated other comprehensive (loss)	(225,331)	-
Balance Sheet	Total shareholders' equity	158,993	384,324
Statement of Cash Flows	Net cash provided by operating activities	1,353,831	1,384,322
Statement of Cash Flows	Net cash used in investing activities	(22,614)	30,103
Statement of Cash Flows	Net cash used in financing activities	(1,371,914)	(1,267,599)
Statement of Cash Flows	Non-cash investing and financing activities:		

Effect of exchange rate on note payable in foreign currency 225,331 -

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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OVERVIEW

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

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

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

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

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

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

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

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

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

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

Grow our e-Table business. Our TMAX e-Tables are developed for us by TableMAX Corporation. Having installed the majority of TMAX e-Tables we received last year, we are awaiting the next major release of the TMAX e-Table, referred to as the “Model E.” We have been informed by TableMAX Corporation that the majority of the Model E’s development is complete and it has been submitted for regulatory approval with Gaming Labs International, an independent testing organization. We expect to offer this product to gaming operators in 2013.

California administrative licensing action – In September 2013, we were notified by the California Bureau of Gambling Control (“Bureau”) that we are not permitted to conduct business in California. We were informed this notice was due to an adverse decision by the California Commission pertaining to a finding of suitability of GGCA and our CEO, who was formerly a member of GGCA. Please see the form 8-K, filed by us on July 30, 2013 for further details. At the time of the Bureau’s notice, our revenue from California clients was approximately \$60,000 per quarter. While the implications from this notice have not significantly impacted our financial results for the three months ended September 30, 2013, we do not expect to recognize any revenue from California clients beginning October 1, 2013.

We and our CEO are actively involved in correcting the California matter. On August 9, 2013, a petition for writ of mandate was filed and served with the Sacramento County Superior Court on behalf of GGCA and our CEO. The petition asks the Superior Court to issue a writ directing the California Commission to find GGCA and our CEO suitable. The basis of the petition included evidence and arguments supporting that the California Commission had no jurisdiction to act when issuing the decision and acted arbitrarily and capriciously in making its factual finding. A hearing on the petition is scheduled in June 2014. Although there can be no assurances that the judicial review will be successful or that our CEO will be found suitable, we remain optimistic that we will be able to re-enter the California market in 2014.

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.

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Results of operations for the nine months ended September 30, 2013. For the quarter ended September 30, 2013, our continuing operations generated gross revenues of \$2,136,059 compared to gross revenues of \$1,873,528 for the previous year's comparable quarter, representing an increase of \$262,531 or 14.0%. Of this increase, \$104,000 was related to the sale of several lifetime licenses of our Lucky Ladies product. Additionally, approximately \$49,000 was recorded as licensing revenue due to the result of a routine revenue audit of an international client. The remainder of the increase was due primarily to the performance of the Prime Table Game assets added to our portfolio in October 2011 and entrance into new markets and territories. Selling, general and administrative expenses for the quarter ended September 30, 2013, were \$1,217,376 compared to \$994,537 for the previous year's third quarter, representing an increase of \$222,839, or 22.4%. The significant year-over-year changes in selling, general and administrative was comprised of the following items:

	Three months ended	
	September 30,	
	2013	2012
Legal & regulatory expenses	\$241,455	\$139,518
Advertising & marketing expenses	107,133	67,343
Royalty expense	44,208	—
Investor relations expenses	43,833	5,646

The increase in legal & regulatory expenses was primarily related to litigation costs for the administrative action with California. Additionally, legal & regulatory expenses included \$109,000 for reimbursement of routine audit fees due to the Washington State Gambling Commission. Advertising & marketing expense increased due to expanded marketing efforts, promotional programs and increased visibility at regional conferences and trade shows. Royalty expense increased due to significant expansion of products Bonus Craps, High Card Flush and World Poker Tour branded products. Investor relations expense has increased due to implantation of our investor visibility strategy, which began in late 2012.

During the three months ended September 30, 2013, we accrued income taxes at the expected annualized rate of 38.06% as compared to annualized rate of 0.0% for the same period 2012. The increase in the expected annualized rate in 2013 was primarily due to recognition of net operating loss carryforwards recognized in 2012. In addition, a discrete tax expense related to state net operating losses was recognized.

Liquidity and capital resources. As of September 30, 2013, we had total current assets of \$2,293,212 and total assets of \$21,310,931. This compares to \$2,290,724 and \$22,404,946, respectively for the period ended December 31, 2012. The decrease in current assets for the period ended September 30, 2013 was primarily impacted by a lower cash balance and utilization and reclassification of deferred tax assets. Our total current liabilities as of September 30, 2013 were \$4,110,427 versus \$3,562,098 as of December 31, 2012. This increase was primarily attributed to an increase in our current portion of notes payable, due to our scheduled monthly debt payment increase to Prime Table Games in January 2014.

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, 2013, 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, 2013, were net income of \$168,004, increases in accounts receivable of \$193,608, increases in inventory of \$164,136, offset by increases in deferred revenue of \$55,993 and increases in accounts payable of \$48,841 for a total operating activities impact of an additional \$1,512,667 of cash.

Cash flows used in investing activities for the nine months ended September 30, 2013 were \$16,772, primarily due to an increase in our property and equipment of \$21,735, offset by payments received on our note receivable of \$4,963. Cash used in financing activities during the nine months ended September 30, 2013 was \$1,702,937 which was completely comprised of principal payments towards long-term debt.

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, 2013 we incurred other comprehensive income of \$226,562. This amount

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is primarily due to the unrealized translation adjustment on the note payable due Prime Table Games – UK, which is due in British Sterling currency. There 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, 2013.

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.

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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 September 30, 2013. 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, 2013, 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.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

(See Note 10 of Item 1 Financial Statements regarding current litigation.)

Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None

Item 4. MINE SAFETY DISCLOSURES

None

Item 5. Other Information

None

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
31.1	<u>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</u>
31.2	<u>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</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002</u>
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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 14, 2013

By: /s/ ROBERT B. SAUCIER

Robert B. Saucier

Chief Executive Officer

Galaxy Gaming, Inc.

Date: November 14, 2013

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 14, 2013

Robert B. Saucier

/s/ GARY A. VECCHIARELLI Chief Financial Officer (Principal Financial and Accounting Officer) November 14, 2013

Gary A. Vecchiarelli

