

Galaxy Gaming, Inc.
Form 10-K
April 16, 2012

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,**
2011

TRANSITION
REPORT UNDER
SECTION 13 OR
15(d) OF THE
SECURITIES
EXCHANGE ACT
For the transition
period from
_____ to

Commission file
number: **000-30653**

Galaxy Gaming, Inc.
(Exact name of registrant as
specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

20-8143439
(I.R.S. Employer Identification No.)

6980 O'Bannon Drive,

Las Vegas, Nevada

(Address of principal executive offices)

89117

(Zip Code)

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

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

Title of each class

none

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

Title of each class

Common Stock, par value \$0.001

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's second fiscal quarter was \$3,605,028.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 38,310,591 as of March 29, 2012.

Table of Contents

GALAXY GAMING, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

	Page
Forward Looking Statements	
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	10
Item 1B. <u>Unresolved Staff Comments</u>	10
Item 2. <u>Properties</u>	10
Item 3. <u>Legal Proceedings</u>	10
Item 4. <u>Mine Safety Disclosures</u>	10
PART II	
Item 5. <u>Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	10
Item 6. <u>Selected Financial Data</u>	12
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 8. <u>Financial Statements and Supplementary Data</u>	14
Item 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	15
Item 9A(T). <u>Controls and Procedures</u>	15
Item 9B. <u>Other Information</u>	15
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	16
Item 11. <u>Executive Compensation</u>	18
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	20
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	21
Item 14. <u>Principal Accountant Fees and Services</u>	21

PART IV

Item 15. Exhibits, Financial Statement Schedules

21

2

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements”. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

PART I

ITEM 1. BUSINESS

Unless the context indicates otherwise, references to “Galaxy Gaming,” “we,” “us,” “our” or the “Company,” refers to Galaxy Gaming, Inc., a Nevada corporation, the company filing this report. “GGPVT” refers to a prior Galaxy Gaming, Inc., a privately held company that previously operated under the *Galaxy Gaming* moniker and was acquired by us. Further, unless indicated otherwise, the terms and titles, “chief executive officer,” “CEO,” “interim chief financial officer,” “interim CFO,” “chairman,” “chairman of the board” and “president” refers to Mr. Robert B. Saucier; “CFO” and “chief financial officer” refers to Mr. Andrew Zimmerman; “COO” refers to our “chief operating officer,” Mr. William O’Hara and “Board” refers to the Company’s board of directors.

History and development of Galaxy Gaming. In 1997, our founder, Robert B. Saucier, was an investor in a small casino in Washington State that featured casino table games. During his tenure at this casino, Mr. Saucier invented a side bet for blackjack known as Horseshoe Blackjack. The side bet became very popular and the casino’s winnings from the games increased significantly. On October 7, 1997, Galaxy Gaming Corporation, a privately held Nevada corporation (“GGCORP”) was formed and Mr. Saucier exchanged all of his rights, title and interest in his invention for stock in GGCORP. Other casinos, recognizing the popularity and profitability of this side bet, requested intellectual property licenses to offer the Horseshoe Blackjack side bet at their casinos. GGCORP modified the invention, changed the name of the side bet to Lucky Ladies and filed for a method patent, which was later granted by the U.S. Patent and Trademark Office.

In 2002, the business and assets of GGCORP were acquired by Galaxy Gaming, LLC, a Nevada limited liability company (“GGLLC”). GGLLC expanded its product line including the introduction of two popular casino table games known as “Texas Shootout” and “Emperor’s Challenge.” These new products, combined with an enlarged sales force and an expanded distribution network, attributed to GGLLC’s growth in subsequent years. In 2007, GGPVT acquired the assets and business operations of GGLLC. In February 2009, GGPVT executed a reverse merger with Secured Diversified Investment, Ltd., a publically traded Nevada corporation (“SDI”) for the purpose of transferring GGPVT’s business into the publically traded SDI shell corporation. With that transaction, GGPVT became a wholly-owned subsidiary of SDI and in September 2009, the two companies merged and the resulting entity was named “Galaxy Gaming, Inc.” See “Note 1 History of business entities” in “Item 8. Financial Statements and Supplementary Data” included in this Form 10-K.

Description of the 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 beginning in 2011, to internet gaming companies. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. We market our products primarily via our internal sales force to casinos throughout North America, the Caribbean, the British Isles, Europe, Australia and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 2,500 gaming tables located in over 500 casinos, which positions us as the second largest provider of proprietary table games in the world.

Table of Contents

Revenues consist of primarily recurring royalties received from our clients for the licensing of our game content and other products. Typically over 90% of our total revenues are recurring. In 2011, recurring revenues represented 99.2% of our total revenues. These recurring revenues generally have few direct costs thereby generating high gross profit margins in excess of 90%. In lieu of reporting as “gross profit,” this amount would be comparable to “revenues less cost of ancillary products and assembled components” on our financial statements. Additionally, we receive non-recurring revenue as reimbursement from the sale of associated products.

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 table games are grouped into two product types we call “Side Bets” and “Premium Games.” Side Bets are proprietary features and wagering schemes typically added to public domain games such as poker, baccarat, pai gow poker, craps and blackjack table games. Premium Games are unique stand-alone Proprietary Table Games with their own unique set of rules and strategies. Generally, Premium Games generate higher revenue per table placement than the Side Bet games. Internally, we track revenue by each of our Proprietary Table Games. We do not internally track the cost associated with the revenue of each of our proprietary casino games since it would require subjective allocations of common costs. Samplings of our Proprietary Table Games are listed below.

Side Bets	Premium Games
21 Magic	Buffalo Blackjack Bonus
21+3 Classic Blackjack	Deuces Wild
21+3 Top 3 Blackjack	Emperor’s Challenge
21+3 Xtreme Blackjack	Four the Money
All 6 for Three Card Poker	Kokomo Stud
Benz for a Buck Blackjack	Player’s Edge 21
Bonus Blackjack	Random Wild
Bonus Craps	Rainbow Poker
Bust Bonus	Super 3 Poker
Colors for Pai Gow Poker	Texas Shootout
D-T Dice for Pai Gow Poker	Three Card Poker
Double Match	Three Card Split
Emperor’s Treasure	Triple Attack Blackjack
JoKolor for Pai Gow Poker	Two Way Hold ‘em Casino Poker
Lucky 8 Baccarat	YES Dice
Lucky Ladies	
Pai Gow Insurance	
Poker 3 Bonus	
Prime for Three Card Poker	
Quick Draw	

Share the Wealth
Suited Royals
Super Pairs
Triple Match

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

Enhanced Table Systems: Bonus Jackpot System. In 2008, we began deployment of a research and development project to create an electronically enhanced table game platform we trademarked the “Bonus Jackpot System.” We developed our Bonus Jackpot System to compete with our competitors’ progressive jackpot systems. Early in the design process, we decided to not simply emulate the standard progressive jackpot system offered by competitors, but instead we chose to design, engineer and manufacture a system to further enhance the table game player’s experience beyond their current experiences and likewise further improve the casino’s profit from table games. We have committed a significant portion of our resources to the research and development of this system. We believe we have benefited from this commitment as our Bonus Jackpot System has evolved into a leading casino table game platform in the industry.

Table of Contents

The Bonus Jackpot System consists of two independent sub-systems known as the Bet Tabulator System and TableVision. The Bet Tabulator System is an advanced system installed on gaming tables that is used to detect players' wagers. Casinos use this system to evaluate game play, determine dealer efficiency and to assist in calculating jackpots and bonusing offerings. TableVision is an electronic display system used on gaming tables to display game information to the players in lieu of traditional static paper or plastic displays. Casinos use TableVision as an enhanced display to generate additional player interest and to promote various aspects of the game offered such as jackpots and bonusing programs. When the Bet Tabulator System and TableVision are used together, the Bonus Jackpot System allows the casino to seamlessly collect and process data and in turn, offer jackpots and other bonusing schemes to their players as determined by them using the data collected and processed.

The inaugural series of the Bonus Jackpot System, known as the "Milky Way Series," was first installed into a casino in March 2009. We consider our Milky Way Series to have been a success for us, as it was our entry into developing electronic bonusing platforms for casino table games. The Milky Way Series is still currently in use and it continues to generate recurring revenue for us. We anticipate we will continue to receive revenues from the Milky Way Series in 2012.

Shortly after the Milky Way Series was deployed, we began development of the next series of our Bonus Jackpot System, which we branded the "Andromeda Series," continuing the theme of branding each major release of our Bonus Jackpot System with the name of a known galaxy. Early in 2010, we completed development of the first phase of Andromeda Series. The major advancement of the Andromeda Series over the Milky Way Series was the ability for two-way communication between gaming tables located anywhere in the world and one or more data processing centers. 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 August 2010, we released Andromeda Series – Stage 2 ("Andromeda-2"). Among other improvements, Andromeda-2 increased the maximum number of player positions at a table from 7 to 16 and increased the number of betting positions per player from 1 to 6, both firsts within the casino table game industry. Andromeda-2 also introduced an advanced sensor design placed in front of each player, which increased reliability and provided the player with a positive indication when their wager is recorded.

In March 2011, we released Andromeda-3, which added advanced player display options to the TableVision platform including the ability of the Bonus Jackpot System to keep track of and display more than one jackpot. This advancement, combined with the multiple sensor advancements achieved with Andromeda-2, permits us to offer a unique bonusing system called "MEGA-Share" to our casino clients. We began generating revenue from Andromeda-3 in the fourth quarter of 2011.

We continue to develop enhancements and improvements to our Andromeda Series and are currently designing and developing our Andromeda-4 system, which we expect to be completed in 2012. Concurrently, we have commenced preliminary design and development of our next major series which we have designated the "Triangulum Series." It is

anticipated that the Triangulum Series may be released in late 2012 or 2013 and will further our reputation for designing leading edge technology and products for the casino table game industry.

Enhanced Table Systems: Inter-Casino Jackpot System. In 2009, we saw an opportunity to leverage the abilities of our Bonus Jackpot System to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network. This methodology has long been practiced in the slot machine industry beginning with the introduction of IGT's Megabucks in the 1990's. These systems are referred to as "wide area progressives" and nearly every major slot machine manufacturer has a wide area progressive system. We developed our version of a wide area progressive jackpot system for table games that we call the Inter-Casino Jackpot System.

In April 2011, using our proprietary Andromeda-2 Bonus Jackpot System, we implemented our Inter-Casino Jackpot System in Nevada by connecting nine casinos located in Las Vegas which are operated by Station Casinos, a Las Vegas based, locals oriented, casino chain. This system linked our proprietary *Deuces Wild* game operating in each of the nine casinos and allowed Station Casinos to offer a combined jackpot. Our preferred method of compensation is to collect a fee from our casino clients based upon their player's participation in the Inter-Casino Jackpot System.

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

Table of Contents

We believe MEGA-Share may offer casinos an opportunity to significantly increase player interest, thereby increasing their revenues, which in turn could result in generating increased recurring revenue for us. For table games, MEGA-Share uses our Andromeda-3 Bonus Jackpot System. We installed and commenced beta-testing our first MEGA-Share system in an off-strip casino in Las Vegas in December 2011.

e-Tables. In February 2011, we acquired 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 18 in “Item 8. Financial Statements and Supplementary data” included in this Form 10-K. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms will allow us to offer our table game content in markets where live table games are not permitted, such as racinos, video lottery and arcade markets. Our e-Table product enables the automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability.

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, Shuffle Master Gaming, 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.

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.

Table of Contents

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 but not the other, 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 TableMAX product line is developed for us by TableMAX Corporation. Having installed the majority of TableMAX e-Tables we received last year, we are awaiting the next major release of the TableMAX 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 anticipate the requisite approval for the Model E in 2012 and expect to offer this product to gaming operators in late 2012 or early 2013.

Competition. We compete with other gaming products and supply companies for space on the casino floor, as well as for our client’s capital spending. Our competition for casino placement and players comes from a variety of sources, including companies that design and market proprietary table games, electronic table game platforms, e-Tables and other gaming products.

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

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

Master.

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

With respect to our e-Table system, there are numerous other companies that manufacture and/or sell e-Tables that are similar. These companies include, but are not limited to, TCS/John Huxley, Aristocrat, Interblock, Aruze Corporation, Novomatic Industries, PokerTek, Inc. and Shuffle Master Gaming. Our e-Tables, as well as those of other companies, also compete for casino floor space with live table games and slots. One of our competitive strengths in this segment is the ability to offer our proprietary table game titles on e-Table platforms. In 2010, we entered into a royalty agreement with PokerTek, Inc. to license our game content whereby we would receive royalties for the use of our products if placed on their electronic platform. In 2011, we did not earn any royalties from this agreement we anticipate we will receive minimal revenues from this agreement in 2012.

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

7

Table of Contents

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

Research and development. We employ a staff of electrical, mechanical and software engineers, graphic artists and game developers to support, improve and upgrade our products and to develop and explore other potential table game products. We perform our research and development ourselves at our corporate offices. We may also use third party developers to conduct research and development for certain product offerings.

We believe that one of our strengths is identifying new product opportunities and developing new products. Therefore we expect to continue to spend a significant portion of our annual revenues on research and development, including the acquisition of intellectual property from third parties. We have incurred approximately \$286,142 and \$285,310 in research and development expenditures during 2011 and 2010, respectively.

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

We have been and are subject to litigation claiming that we have infringed the rights of others and/or that certain of our patents and other intellectual property are invalid or unenforceable. We have also brought actions against others to protect our rights. For a discussion of these cases see "Item 3. Legal Proceedings" and Note 15 in "Item 8. Financial Statements and Supplementary Data" included in this Form 10-K.

Government regulation. We are subject to regulation by governmental authorities in most jurisdictions in which we offer our products. 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. In addition to jurisdictions in which we, and specific personnel, were

required to have authorizations with respect to some or all of our products and activities, we have authorizations with respect to 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 devices and equipment. We sell or lease products that are considered to be “gaming devices” or “gaming equipment” in jurisdictions in which gaming has been legalized. Although regulations vary among jurisdictions, each jurisdiction requires various licenses, findings of suitability, registrations, approvals, or permits for companies and their key personnel in connection with the manufacture and distribution of gaming devices and equipment.

Regulation of officers, directors and stockholders. In many jurisdictions, any officer or director is required to file an application for a license, finding of suitability or other approval and, in the process, subject himself or herself to an investigation by those authorities. As for stockholders, any beneficial owner of our voting securities or other securities may, at the discretion of the gaming regulatory authorities, be required to file an application for a license, finding of suitability, or other approval and, in the process, subject himself or herself to an investigation by those authorities. The gaming laws and regulations of most jurisdictions require beneficial owners of more than 5% of our outstanding voting securities to file certain reports and may require our key employees or other affiliated persons to undergo investigation for licensing or findings of suitability.

Table of Contents

In the event a gaming jurisdiction determines that one of our officers, directors, key employees, stockholders, or other personnel is unsuitable to act in such a capacity, we may be required to terminate our relationship with such person or lose our rights and privileges in that jurisdiction. This may have a materially adverse effect on us. We may be unable to obtain all the necessary licenses and approvals or ensure that our officers, directors, key employees, affiliates and certain other stockholders will satisfy the suitability requirements in each jurisdiction in which our products are sold or used. The failure to obtain such licenses and approvals in one jurisdiction may affect our licensure and approvals in other jurisdictions. In addition, a significant delay in obtaining such licenses and approvals could have a material adverse effect on our business prospects. Our articles of incorporation permit us to require any shareholder who fails to obtain a required finding of suitability to surrender their shares to us in exchange for compensation based upon a predetermined methodology.

Gaming jurisdictions. Gaming jurisdictions that have legalized gaming typically require various licenses, registrations, findings of suitability, permits, and approvals of manufacturers and distributors of gaming devices and equipment as well as licensure provisions related to changes in control. In general, such requirements involve restrictions and approvals. Additionally we license and/or lease our products through licensed distributors. We now offer our products in the following gaming jurisdictions:

United States		Canada	Other
Arizona	Mississippi	Alberta	Aruba
California	Missouri	British Columbia	Australia
Colorado	Nevada	Manitoba	Puerto Rico
Connecticut	New Jersey	Nova Scotia	St. Maarten
Florida	New Mexico	Ontario	Switzerland
Idaho	North Dakota	Quebec	United Kingdom
Illinois	Ohio		U.S. Virgin Islands
Indiana	Oklahoma		
Iowa	Pennsylvania		
Kansas	South Dakota		
Maine	Washington		
Michigan	West Virginia		
Minnesota			

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

enforced by tribal and/or state gaming agencies under IGRA in the Native American lands in which we do business.

Application of future or additional regulatory requirements. In the future, we intend to seek the necessary registrations, licenses, approvals, and findings of suitability for us, our products, and our personnel in other jurisdictions throughout the world where significant sales of our products are expected to be made. However, we may be unable to obtain these registrations, licenses, approvals or findings of suitability, which if 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 a registration, license, approval or finding of suitability is required by a regulatory authority and we fail to seek or do not receive the necessary registration, license, approval or finding of suitability, 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 nineteen employees, including executive officers, management personnel, accounting personnel, office staff, sales staff, service technicians and research and development personnel. Our employees are co-employed by Advanstaff, Inc. a professional employer organization used by us to provide payroll and human resource services. As needed from time to time, we also pay for the services of independent contractors.

Subsidiary. In the year ending December 31, 2011, we have one wholly owned subsidiary, Galaxy Gaming of Washington, LLC. This company was dormant for several years and was dissolved prior to the date of this report.

Table of Contents

ITEM 1A. RISK FACTORS.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

We do not own any real property used in the operation of our current business. We maintain our corporate office at 6980 O'Bannon Drive, Las Vegas, Nevada. We currently pay rent to a related party pursuant to a lease was entered into effective September 1, 2010 for a period of two years with a monthly rental payment of \$10,359. We currently occupy 6,200 square feet and are currently anticipating that we will need to seek additional space to accommodate our expanded operations.