Galaxy Gaming, Inc.
Form 10-Q
August 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 000-30653

Galaxy Gaming, Inc.

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

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

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

(702) 939-3254

(Issuer’s telephone number)

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

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

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

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

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

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

State the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 39,315,591 common shares as of August 15, 2016.

GALAXY GAMING, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

GALAXY GAMING, INC.

CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$642,738	$570,623
Restricted cash	71,073	97,859
Accounts receivables, net allowance for bad debts of $31,000 and $30,944	1,754,598	1,828,669
Prepaid expenses	97,182	106,338
Inventories, net	504,267	411,700
Deferred tax asset	—	43,017
Other current assets	2,161	2,489
Total current assets	3,072,019	3,060,695
Property and equipment, net	263,231	298,877
Products leased and held for lease, net	155,405	134,485
Intangible assets, net	12,517,011	13,261,636
Goodwill	1,091,000	1,091,000
Deferred tax assets, net of current portion	—	82,562
Other assets, net	41,793	41,793
Total assets	$17,140,459	$17,971,048
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,181,215	$1,421,848
Accrued expenses	1,158,864	823,964
Income taxes payable	519,781	170,331
Deferred revenue	851,859	717,690
Jackpot liabilities	90,073	106,671
Deferred tax liability	75,358	—
Capital lease obligations, current portion	39,270	59,196
Long-term debt, current portion	3,998,548	4,648,120
Deferred rent, current portion	10,568	6,197
Total current liabilities	7,925,536	7,954,017
Deferred rent, net of current portion	47,359	52,643
Capital lease obligations, net of current portion	62,701	78,008
Long-term debt, net of debt discount, net of current portion	5,676,863	7,436,171
Total liabilities	13,712,459	15,520,839
Commitments and Contingencies (See Note 11)		
Stockholders' equity		
Preferred stock, 10,000,000 shares, $.001 par value preferred stock authorized; 0 shares issued and outstanding	—	—

Common stock, 65,000,000 shares authorized; $.001 par value 39,315,591 and 39,215,591 shares issued and outstanding	39,316	39,216
Additional paid-in capital	3,013,772	2,963,841
Accumulated deficit	(35,552)	(792,446)
Accumulated other comprehensive income	410,464	239,598
Total stockholders' equity	3,428,000	2,450,209
Total liabilities and stockholders' equity	$17,140,459	$17,971,048

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

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GALAXY GAMING, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	FOR THE THREE MONTHS ENDED June 30, 2016	2015	FOR THE SIX MONTHS ENDED June 30, 2016	2015
Revenue:				
Product leases and royalties	$ 3,057,172	$ 2,677,384	$ 6,038,991	$ 5,255,696
Product sales and service	6,999	5,216	9,279	10,999
Total revenue	3,064,171	2,682,600	6,048,270	5,266,695
Costs and expenses:				
Cost of ancillary products and assembled components	29,672	23,989	51,312	47,278
Selling, general and administrative	1,622,105	1,700,503	3,274,304	3,279,579
Research and development	101,879	116,441	181,221	269,429
Depreciation	45,032	43,018	88,696	84,311
Amortization	372,312	372,313	744,625	750,386
Share-based compensation	29,459	36,072	49,931	54,942
Total costs and expenses	2,200,459	2,292,336	4,390,089	4,485,925
Income from operations	863,712	390,264	1,658,181	780,770
Other income (expense):				
Interest income	90	5,320	146	11,205
Interest expense	(255,218)	(270,865)	(513,413)	(550,803)
Total other expense	(255,128)	(265,545)	(513,267)	(539,598)
Income before provision for income taxes	608,584	124,719	1,144,914	241,172
Provision for income taxes	(231,057)	(53,146)	(388,020)	(106,740)
Net income	$ 377,527	$ 71,573	$ 756,894	$ 134,432
Basic income per share	$ 0.01	$ 0.00	$ 0.02	$ 0.00
Diluted income per share	$ 0.01	$ 0.00	$ 0.02	$ 0.00
Weighted average shares outstanding:				
Basic	39,315,591	39,065,591	39,383,369	39,028,091
Diluted	39,465,676	39,065,591	39,565,633	39,028,508

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

GALAXY GAMING, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	FOR THE SIX MONTHS ENDED June 30,	
	2016	2015
Net income	$756,894	$134,432
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	170,866	(30,792)
Total comprehensive income	$927,760	$103,640

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

GALAXY GAMING, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	FOR THE SIX MONTHS ENDED June 30, 2016	2015
Cash flows from operating activities:		
Net income for the period	$756,894	$134,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	88,696	84,311
Amortization expense	744,625	750,386
Provision for bad debt expense	—	40,000
Inventory reserve	—	47,069
Amortization of debt discount	104,316	104,316
Deferred income tax provision	388,020	202,506
Share-based compensation	49,931	54,942
Changes in operating assets and liabilities:		
Decrease (increase) in restricted cash	26,786	(28,408)
Decrease (increase) in accounts receivable	71,287	(51,744)
Decrease (increase) in other current assets	328	(8,156)
Increase in inventory	(137,704)	(20,348)
Decrease (increase) in prepaid expenses	9,156	(117,860)
(Decrease) increase in accounts payable	(241,190)	286,986
Increase in income taxes payable	349,450	—
Increase in accrued expenses	327,090	14,837
Increase in deferred revenue	134,169	35,086
(Decrease) increase in jackpot liabilities	(16,598)	28,464
(Decrease) increase in deferred rent	(913)	1,685
Net cash provided by operating activities	2,654,343	1,558,504
Cash flows from investing activities:		
Acquisition of property and equipment	(28,832)	(44,066)
Net cash used in investing activities	(28,832)	(44,066)
Cash flows from financing activities:		
Principal payments on capital leases	(35,233)	(32,464)
Principal payments on notes payable	(2,488,778)	(1,800,231)
Net cash used in financing activities	(2,524,011)	(1,832,695)
Effect of exchange rate changes on cash	(29,385)	5,233
Net increase (decrease) in cash and cash equivalents	72,115	(313,024)
Cash and cash equivalents – beginning of period	570,623	560,184
Cash and cash equivalents – end of period	$642,738	$247,160
Supplemental cash flow information:		
Cash paid for interest	$530,660	$446,487

Inventory transferred to leased assets	$45,137	$11,034
Cash paid for income taxes	$20,000	$—
Supplemental non-cash financing activities information:		
Effect of exchange rate on note payable in foreign currency	$24,318	$152,523

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

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

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

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

Casinos use our proprietary products to enhance their gaming floor operations and improve their profitability, productivity and security, as well as offer popular cutting-edge gaming entertainment content and technology to their players. We market our products to land-based, riverboat and cruise ship and internet gaming companies. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. We market our products primarily via our internal sales force to casinos throughout North America, the Caribbean, the British Isles, Europe, and Africa and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 5,000 gaming tables located in over 600 casinos, which positions us as the second largest provider of proprietary table games in the world.

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

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

Proprietary Table Games. We design, develop and deliver our Proprietary Table Games to enhance our casino clients’ table game operations. Casinos use our Proprietary Table Games in lieu of those games in the public domain (e.g. Blackjack, Craps, Roulette, etc.) because of their popularity with players and to increase profitability. Our Proprietary Table Games are grouped into two product types we call “Side Bets” and “Premium Games.” Side Bets are proprietary features and wagering schemes typically added to public domain games such as poker, baccarat, pai gow poker, craps and blackjack table games. Examples of our side bets include such popular titles as Lucky Ladies, 21+3 and Bonus Craps. Premium Games are unique stand-alone games with their own unique set of rules and strategies. Examples of our Premium Games include such popular titles as High Card Flush, World Poker Tour Heads Up Hold’em, Three Card Poker, and Texas Shootout. Generally, Premium Games command a higher price point per unit than Side Bets.

Enhanced Table Systems. Enhanced Table Systems are electronic enhancements used on casino table games to add to player appeal and enhance game security. We include three products in this category: our Bonus Jackpot System, our Inter-Casino Jackpot System and our MEGA-Share. We receive compensation by collecting a fixed fee or a transaction fee.

Our Bonus Jackpot System facilitates a jackpot players can win by making a qualified wager. The jackpot is awarded to a player (or players) upon obtaining a specific triggering event. Our Bonus Jackpot System can facilitate either a fixed, adjustable or progressive style jackpot.

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

MEGA-Share is a game-play methodology invented by us that allows a player of one of our table games to share in the winnings of a jackpot together with other players. An example of this concept would be when multiple table game players are playing in a casino and one player obtains a winning hand entitling him or her to a jackpot. This jackpot winning event will trigger a second MEGA-Share jackpot that is divided among all players who made a MEGA-Share qualified wager.

e-Tables. In 2011, we licensed the worldwide rights (excluding Oklahoma, Kentucky and the Caribbean), to the TableMAX e-Table system. Simultaneously we obtained the e-Table rights to the casino table games Caribbean Stud, Caribbean Draw, Progressive

Blackjack, Texas Hold'em Bonus and Blackjack Bullets. See Note 16. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. Our e-Table product enables automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of our significant accounting policies is presented to assist in understanding our financial statements. The financial statements and notes are representations of our management team, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been consistently applied to the preparation of the financial statements.

Basis of presentation. The accompanying unaudited interim condensed financial statements include the accounts of Galaxy Gaming, Inc., and are stated in conformity with U.S. GAAP, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. These unaudited interim condensed financial statements should be read in conjunction with the financial statements and the related notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 30, 2016.

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

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

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

Inventory. Inventory consists of ancillary products such as signs, layouts, and bases for the various games and electronic devices and components to support our Enhanced Table Systems. Inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. We regularly assess inventory quantities for excess and obsolescence primarily based on forecasted product demand. See Note 4.

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

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

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

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

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

Goodwill. A goodwill balance of $1,091,000 was created as a result of the Prime Table Games asset acquisition (discussed in more detail in Note 10). This asset will be assessed for impairment at least annually and if found to be impaired, its carrying amount will be reduced and an impairment loss will be recognized.

Impairment of long-lived assets. We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Leases. We recognize rent expense for operating leases on a straight-line basis (including the effect of reduced or free rent and rent escalations) over the applicable lease term. The difference between the cash paid to the landlord and the amount recognized as rent expense on a straight-line basis is included in deferred rent. The landlord of our corporate headquarters financed leasehold improvements in the amount of $150,000. These improvements have been recorded as a capital lease and amortized over the life of the lease, as discussed in Note 11.

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. For the six months ended June 30, 2016 and 2015, respectively, we had the following client revenue concentrations:

		2016	2015
	Location	Revenue	Revenue
Client A	North America	14.0%	15.1%
Client B	North America	6.7%	5.1%
Client C	North America	6.3%	5.4%
Client D	United Kingdom	5.4%	6.7%
Client E	North America	5.0%	3.2%

We are also exposed to risks associated with the expiration of our patents. Domestic and international patents for two of our products expired in June 2015. The patents accounted for approximately $2,880,782 or 48% of our revenue for the six months ended June 30, 2016 and $2,845,545 or 54% of revenue for the six months ended June 30, 2015.

Revenue recognition. Revenue is primarily derived from the licensing of our products and intellectual property. Consistent with our strategy, revenue is generated from negotiated month-to-month recurring licensing fees or the performance of our products, or both. We also, occasionally, receive a one-time sale of certain products and/or reimbursement of our manufactured equipment.

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

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

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

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

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

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

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

Income taxes. We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. Adjustments to the valuation allowance increase or decrease our income tax provision or benefit.

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

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

Basic income 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.

New accounting standards not yet adopted

Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which is a comprehensive new revenue recognition standard that will supersede virtually all existing revenue guidance, including industry-specific guidance. Under the new standard, revenue will be recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The standard creates a five-step model that will generally require companies to use more judgment and make more estimates than under current guidance when considering the terms of contracts along with all relevant facts and circumstances. These include the identification of customer contracts and separating performance obligations, the determination of transaction price that potentially includes an estimate of variable consideration, allocating the transaction price to each separate performance obligation, and recognizing revenue in line with the pattern of transfer.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year to now be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early adoption of the standard is permitted but not before the original effective date of December 15, 2016. The ASU may be adopted using a full retrospective approach or reporting the cumulative effect as of the date of adoption. We are currently evaluating the impact of adopting this guidance.

Inventory. In July 2015, the FASB issued ASU No. 2015-11, Inventory: Simplifying the Measurement of Inventory. ASU 2015-11 changes the criteria for measuring inventory within the scope of the ASU. Inventory will now be measured at the lower of cost and net realizable value, while the concept of market value will be eliminated. The ASU defines net realizable value as the estimated selling process in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with earlier adoption permitted. The prospective adoption of the ASU is required. We are currently evaluating the impact of adopting this guidance.

Deferred Taxes. In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which eliminates the requirement to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, all deferred tax assets and liabilities will be required to be presented as non-current. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments in this guidance may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented with earlier application permitted for financial statements that have not been issued. This ASU is not expected to have a material impact on our financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amended guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is expected to result in a significant portion of our operating leases being recognized on our Balance Sheets. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with earlier adoption permitted. We are currently evaluating the impact of adopting this guidance.

NOTE 3. PREPAID EXPENSES

Prepaid expenses consisted of the following at:

	June 30, 2016	December 31, 2015
IT systems	$31,507	$ 19,041
Professional services	21,623	7,792
Insurance	17,913	13,408
Compliance	14,465	39,097
Travel	7,034	7,780
Trade show expense	2,500	6,000
Rent	2,140	1,989
Other prepaid expenses	—	372
Dues & subscriptions	—	10,859
Prepaid expenses	$97,182	$ 106,338

NOTE 4. INVENTORY

Inventory consisted of the following at:

	June 30, 2016	December 31, 2015
Raw materials and component parts	$334,374	$ 231,709
Finished goods	163,340	170,528
Work-in-process	36,553	39,463
	534,267	441,700
Less: inventory reserve	(30,000)	(30,000)
Inventory	$504,267	$ 411,700

NOTE 5. PROPERTY AND EQUIPMENT

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

	June 30,	December 31,

	2016	2015
Furniture and fixtures	$231,903	$ 211,411
Leasehold improvements	156,843	156,843
Automotive vehicles	94,087	94,087
Computer equipment	93,810	89,203
Office equipment	32,873	29,140
	609,516	580,684
Less: accumulated depreciation	(346,285)	(281,807)
Property and equipment, net	$263,231	$ 298,877

Included in depreciation expense was $64,478 and $62,115 related to property and equipment for the six months ended June 30, 2016 and 2015, respectively.

Property and equipment includes $243,970 of leasehold improvements, furniture and fixtures under capital leases as of June 30, 2016. Accumulated depreciation of assets under capital leases totaled $133,526 as of June 30, 2016.

NOTE 6. PRODUCTS LEASED AND HELD FOR LEASE

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

	June 30, 2016	December 31, 2015
Enhanced table systems	$333,821	$ 288,683
Less: accumulated depreciation	(178,416)	(154,198)
Products leased and held for lease, net	$155,405	$ 134,485

Included in depreciation expense was $24,218 and $20,385 related to products leased and held for lease for the six months ended June 30, 2016 and 2015, respectively.

NOTE 7. INTANGIBLE ASSETS

Intellectual property and intangible assets consisted of the following at:

	June 30, 2016	December 31, 2015
Patents	$13,615,967	$13,615,967
Customer relationships	3,400,000	3,400,000
Trademarks	2,740,000	2,740,000
Non-compete agreements	660,000	660,000
Licensing agreements	35,000	35,000
	20,450,967	20,450,967
Less: accumulated amortization	(7,933,956)	(7,189,331)
Intangible assets, net	$12,517,011	$13,261,636

Amortization expense was $744,625 and $750,386 for the six months ended June 30, 2016 and 2015, respectively.

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

	Fair Value
Patents	$13,259,000

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

NOTE 8. ACCRUED EXPENSES

Accrued expenses, consisted of the following at:

	June 30, 2016	December 31, 2015
Royalties	$383,522	$ 259,193
TableMAX reimbursement	263,365	136,785
Salaries & payroll taxes	206,363	95,115
Trade show expenses	137,030	78,549
Vacation	83,483	62,546
Professional fees	54,513	154,888
Commissions	27,556	22,056
Accrued interest	3,032	14,832
Accrued expenses	$1,158,864	$ 823,964

NOTE 9. CAPITAL LEASE OBLIGATIONS

Capital lease obligations consisted of the following at:

	June 30, 2016	December 31, 2015
Capital lease obligation – leasehold improvements	$92,889	$ 107,365
Capital lease obligation – office furniture	9,082	29,839
	101,971	137,204
Less: Current portion	(39,270)	(59,196)
Capital lease obligations	$62,701	$ 78,008

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

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

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

June 30,	Total
2017	$43,769
2018	34,545
2019	31,666
2020	—
Total minimum lease payments	$109,980
Less: amount representing interest	(8,009)
Present value of net minimum lease payments	$101,971

NOTE 10. LONG-TERM DEBT

Long-term debt consisted of the following at:

	June 30,	December 31,

	2016	2015
Prime Table Games, note payable, net of debt discount	$ 9,068,129	$ 10,934,544
Carpathia Associates, related party note payable	544,745	579,083
Vehicles, notes payable	62,537	70,664
Robert Saucier, related party note payable	—	500,000
	9,675,411	12,084,291
Less: Current portion	(3,998,548)	(4,648,120)
Total long-term debt	$ 5,676,863	$ 7,436,171

In October 2011, we closed an asset acquisition with Prime Table Games ("PTG"). Included within the structure of the $23 million acquisition was a $22.2 million component consisting of two promissory notes: 1) a note payable for $12.2 million, and 2) a note payable for £6.4 million GBP ($10.0 million USD) note. The notes were recorded at fair value, net of a debt discount of $1,530,000. See Note 16 for further details.

The note payable – related party, Carpathia Associates, requires monthly principal and interest payments of $9,159, at a fixed interest rate of 7.3% through February 2017, at which time there was a balloon payment due of $1,003,000. This note payable is a result of the asset purchase agreement with GGLLC. The note payable between GGLLC and Bank of America was the subject of litigation and was settled in February 2014.

In October 2015 (the "Effective Date"), we entered into a Promissory Note (the "Saucier Note") with Robert Saucier, Chief Executive Officer, pursuant to which we agreed to repay a loan of $500,000 made by Mr. Saucier to the Company. Under our terms of the Saucier Note, $590,000 was due on or before one year from the Effective Date, unless we paid Mr. Saucier $535,000 on or before six months from the Effective Date, in which case we would be deemed to have fulfilled all of our obligations under the Saucier Note. In April 2016, we fulfilled our obligation by paying $535,000 to Mr. Saucier, relieving us of any further payments or obligations under the Note.

Maturities of our notes payable are as follows:

Maturities as of June 30,	Total
2017	3,998,548
2018	4,268,580
2019	1,937,699
2020	9,582
Total notes payable	$10,214,409
Less: debt discount	(538,998)
Notes payable, net of debt discount	$9,675,411

NOTE 11. COMMITMENTS AND CONTINGENCIES

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

The initial term of the Spencer Lease commenced on April 1, 2014. We paid approximately $153,000 in annual base rent in the first year, which increases by approximately 4% each year. We are also obligated to pay real estate taxes and other building operating costs. Subject to certain conditions, we have certain rights under the Spencer Lease, including rights of first offer to purchase the premises if the landlord elects to sell. We also have an option to extend the term of the Spencer Lease for two consecutive terms of three years each, at the then current fair market value rental rate determined in accordance with the terms of the Spencer Lease.

In connection with the Spencer Lease, the landlord has agreed to finance tenant improvements (“TI Allowance”) of $150,000. The base rent is increased by an amount sufficient to fully amortize the TI Allowance through the Spencer Lease term upon equal monthly payments of principal and interest, with interest imputed on the outstanding principal balance at the rate of 5.5% per annum. The TI Allowance has been classified as a capital lease on the balance sheet. See Note 9.

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

Total rent expense was $141,834 and $146,448 for the six months ended June 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

Twelve Months Ended June 30,	Annual Obligation
2017	$ 227,052
2018	235,788
2019	244,524
2020	2,802
2021	—
Total Estimated Lease Obligations	$ 710,166

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 12 in Item 8. “Financial Statements and Supplementary Data” included in our annual report on Form 10-K for the year ended December 31, 2015. There are no material updates to matters previously reported on Form 10-K for the year ended December 31, 2015, except:

As discussed in our previous filings, we were served in December 2014 with a complaint by Red Card Gaming, Inc. ("RCG"), and AGS, LLC ("AGS"), regarding an asset purchase agreement ("APA") executed between Galaxy and RCG in September 2012. The complaint filed in the United States District Court for the District of Nevada (the "District Court"), alleged fraud, breach of contract, and trademark infringement, among other allegations. We filed counterclaims against RCG and AGS alleging, among other things, fraud on the trademark office and in the marketplace, misappropriation of our trade secrets, breach of contract, infringement of our trademark and interference with customer relationships. We subsequently filed a demand for arbitration which was required pursuant to terms of the APA. The complaint in the District Court case was stayed pending outcome from the arbitration hearings and both proceedings are collectively referred to as the "Nevada Litigation."

In February 2016, we received notice the arbitration panel (the “Panel”) had issued an interim award (the “Interim Award”) which resulted in, among other things, our retention of all rights and privileges in the ownership of the product and trademark High Card Flush, and an injunction prohibiting AGS and RCG from selling the High Card Flush game and using the trademark. In March 2016, the Panel issued a recovery order (“Recovery Order”) and determined that Galaxy was due 70% of its reasonable attorney fees. Additional briefing on the matter, relating to questions about the nature and amount of attorneys’ fees incurred was requested and provided.

On May 16, 2016, the arbitration panel issued a final award (the "Final Award") incorporating the Interim Award and awarding us our attorneys' fees and costs.

On July 11, 2016, we entered into a settlement agreement (the "Settlement Agreement") with RCG and AGS for purposes of resolving the Nevada Litigation as well as the "In Bet Litigation" further referenced below. Pursuant to the Settlement Agreement, among other things, RCG, AGS and us agreed to a mutual release of all claims and counter-claims. RCG and AGS also agreed to terminate all of their rights and obligations related to the APA, and AGS agreed to pay us the sum of $350,000 and agreed to the injunctive terms of the Final Award. Furthermore, we agreed to dismiss the complaint they filed in November 2014 against In Bet Gaming, Inc. and In Bet, LLC (collectively "In Bet"), alleging that In Bet's In-Between side bet game infringed one of our patents. AGS became involved in an Inter-Partes Review subsequent to November 2014 concerning the patent at issue because AGS had title and interest in the game In-Between.

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 June 30, 2016.

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

In November 2015, Gary Vecchiarelli, our CFO, was granted 150,000 shares of our restricted common stock as condition of his Employment Agreement. The fair market value of the grant was $30,000, which was determined using our closing stock price at November 14, 2015, the date of the grant. Beginning June 30, 2016, the restricted stock will vest at six-month intervals through December 31, 2018.

As a condition of his 2015 employment agreement, Mr. Vecchiarelli can elect to use up to 50% of his annual bonus to purchase shares of the Company's common stock at a 50% discount. The purchase price was to be determined by using the average closing price of the prior 10 business days discounted by 50%. On February 28, 2016, Mr. Vecchiarelli made the election to utilize $9,000 of his annual 2015 bonus to purchase 100,000 shares of common stock at the market price of $0.18 (effective price of $0.09 after discount). The shares vested immediately.

There were 39,315,591 common shares and no preferred shares issued and outstanding at June 30, 2016.

NOTE 13. RELATED PARTY TRANSACTIONS

We have a note payable to a related party, GGLLC, an entity formerly controlled by our CEO, which subsequently was assigned to Carpathia Associates, LLC, an entity which is owned and controlled by our CEO ("Carpathia"). The note payable requires monthly principal and interest payments of $9,159, at a fixed interest rate of 7.3% through February 2017, at which time there is a balloon payment due of $1,003,000. The balance as of June 30, 2016 and December 31, 2015 was $544,745 and $1,065,324, respectively. This note payable is a result of the asset purchase agreement with GGLLC.

In August 2015, our Board of Directors approved an agreement between the Company and Carpathia (the "Agreement"). The Agreement amended the terms of the note receivable and note payable previously entered into between the parties by offsetting the note receivable and note payable between the two parties. The effective result was that the balloon payment of $437,313, due under the terms of the note receivable from Carpathia, was to be applied to the outstanding note payable due to Carpathia . The balloon payment due in December 2018 will be $354,480.

As discussed in Note 10, we entered into the Saucier Note with Robert Saucier, our Chief Executive Officer, on October 2015 (the "Effective Date"). Mr. Saucier loaned $500,000 to us, for which the terms of the Saucier Note require $590,000 shall be due on or before one year from the Effective Date, unless we pay Mr. Saucier $535,000 on or before six months from the Effective Date, in which case we will have fulfilled all of our obligations under the Saucier Note. In April 2016, the Company fulfilled its obligation by paying $535,000 to Mr. Saucier, relieving us of any further payments or obligations under the Saucier Note.

NOTE 14. INCOME TAXES

Our forecasted effective tax rate at June 30, 2016 is 39.6%, a 7.7% decrease from the 47.3% effective tax rate recorded at June 30, 2015. After a discrete benefit of $70,782, the effective tax rate for the six months ended June 30, 2016 was 33.5%. The discrete tax benefit was primarily due to changes in positions taken for uncertain tax positions.

NOTE 15. STOCK WARRANTS, OPTIONS AND GRANTS

Stock options. For the six months ended June 30, 2016 and 2015, we issued 277,500 and 300,000 stock options, respectively. Stock options issued to members of our Board of Directors were 150,000 and 125,000 for the six months ended June 30, 2016 and 2015, respectively. Stock options issued to independent contractors were 75,000 for each of the six month periods ended June 30, 2016 and 2015, respectively.

During the six months ended June 30, 2016, we issued 90,000 stock options to two employees, with a vesting period of three years. The strike price was equal to the stock price at the date of the grant. During the six months ended June 30, 2015, we issued 100,000 stock options to an employee, with a vesting period of three years. The strike price was equal to the stock price at the date of the grant.

All stock options granted for the six months ended June 30, 2016 and 2015 were calculated to have fair values of $46,218 and $48,027, respectively, using the Black-Scholes option pricing model with the following assumptions:

	Options Issued Six Months Ended June 30, 2016
Dividend yield	0%
Expected volatility	89% - 90%
Risk free interest rate	1.01% - 1.21%
Expected life (years)	5.00

A summary of stock option activity is as follows:

	Common Stock Options	Weighted Average Exercise Price
Outstanding – January 1, 2015	381,250	$ 0.36
Issued	675,000	0.23
Exercised	—	—
Expired	—	—
Outstanding – December 31, 2015	1,056,250	$ 0.28
Issued	315,000	0.29
Exercised	—	—
Expired	—	—
Outstanding – June 30, 2016	1,371,250	$ 0.28
Exercisable –June 30, 2016	990,000	$ 0.24

Share based compensation. The cost of all stock options issued has been classified as share based compensation for the six months ended June 30, 2016 and 2015, respectively. Total share based compensation was $49,931 and $54,942 for the six months ended June 30, 2016 and 2015, respectively.

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 in over 250 casinos worldwide (Three Card Poker rights are limited to the British Isles). The intellectual property portfolio included 36 patents, 11 patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. The two principals of Prime Table Games also executed a non-compete agreement with us.

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

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

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

See Note 10 for details regarding the Prime Table Games notes payable.

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

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

TableMAX agreement. In February 2011, we entered into a definitive agreement (“TMAX Agreement”) with TableMAX Corporation (“TMAX”) a provider of electronic table games and platforms headquartered in Las Vegas, Nevada and a principal investor in TMAX. Under the terms of the TMAX Agreement, we have exclusive worldwide rights (excluding one international territory and two U.S. states) to the TMAX electronic gaming platform and certain game titles. We created an operating division (the “TableMAX Division”) which conducts sales, distribution, marketing, engineering, sub-licensing and manufacturing related to the TMAX products and related intellectual property. The TableMAX Division is wholly owned by us and is not considered owned by, related to, a joint venture partner of or an agent of TMAX in any manner

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

We are responsible for the losses of the TableMAX Division. Net profits from the TableMAX Division will be split between TMAX and us on a sliding scale basis dependent upon the number of TableMAX Division table installations and profit results as defined in the TMAX Agreement. We have not experienced losses attributable to the TableMAX Division.

We have communicated to TMAX our intent to terminate the TMAX Agreement effective December 31, 2016. There may be a period of transition whereby we will continue to provide service related to the TableMAX gaming platform and license our content to TMAX for a period of time. Revenues recognized by us under the TMAX Division were approximately $215,000 and $141,000 for the six months ended June 30, 2016 and 2015, respectively.

Included in accrued expenses at June 30, 2016 and December 31, 2015, is $263,365 and $136,785, respectively, which represent reimbursement due to TMAX.

NOTE 17. SUBSEQUENT EVENTS

Litigation. As discussed in further detail in Note 11, on July 11, 2016 we entered into the Settlement Agreement with RCG and AGS for purposes of resolving the Nevada Litigation as well as the “In Bet Litigation.” As a result of the Settlement Agreement, among other things discussed in Note 11, AGS agreed to pay us the sum of $350,000 and release all claims and counter-claims against us, which included accrued royalties due AGS in the amount of approximately $347,000.

In accordance with ASC 855-10, we have analyzed our operations subsequent to June 30, 2016 to the date these financial statements were issued, and have determined that we do not have any material subsequent events to disclose in these financial statements other than the event discussed above.

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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.

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 or electronically enhanced table game platforms. Our products are offered in highly regulated markets throughout the world.   Our products are assembled or manufactured at our headquarters in Las Vegas, Nevada, and are outsourced for certain sub-assemblies in the United States.

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

Strategy. Our long-term business strategy is designed to capitalize on the opportunities we perceive within the gaming industry. We are an experienced developer and provider of proprietary table games and advanced electronic table game platforms. 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; and
2. Increase our per unit price point by leveraging our Enhanced Table Systems.

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

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

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

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 one-time sales of certain products and/or reimbursement of our manufactured equipment.

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

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

Results of operations for the three months ended June 30, 2016. For the three months ended June 30, 2016, our continuing operations generated gross revenues of $3,064,171 compared to gross revenues of $2,682,600 for the previous year's comparable quarter, representing an increase of $381,571, or 14.2%. This increase was primarily attributable to our continued focus on premium games, which command a higher price point than side bets. Additionally, increased utilization of products in the United Kingdom contributed to the increase in gross revenues. Selling, general and administrative expenses for the quarter ended June 30, 2016, were $1,622,105 compared to $1,700,503 for the previous year's second quarter, representing a decrease of $78,398, or 4.6%. The significant year-over-year changes in selling, general and administrative was comprised of the following categories:

	Three months ended June 30,	
	2016	2015
Compensation	$604,853	$444,194
Distributor	$70,819	$186,858
Regulatory	$128,243	$67,112
Legal	$84,924	$292,581

Compensation expenses are up as we are making investments in personnel as the company grows as well as increased commissions from greater sales throughout 2016. Distributor expenses decreased as we moved away from reliance on third party distributors in various jurisdictions as we receive regulatory approvals. Regulatory expenses increased significantly due to expanding our footprint throughout the world through jurisdictional and compliance approvals.

Legal expenses have decreased as ongoing legal proceedings have been subsiding.

Results of operations for the six months ended June 30, 2016. For the six months ended June 30, 2016, our continuing operations generated gross revenues of $6,048,270 compared to gross revenues of $5,266,695 for the previous year's comparable period, representing an increase of $781,575 or 14.8%. This increase was primarily attributable to our continued focus on premium games, which command a higher price point than side bets. Additionally, increased utilization of products in the United Kingdom contributed to the increase in gross revenues. Selling, general and administrative expenses for the six months ended June 30, 2016, were $3,274,304 compared to $3,279,579 for the previous year's period, representing a decrease of $5,275, or .2%. The year-over-year changes in selling, general and administrative was comprised of the following categories:

	Six months ended June 30, 2016	2015
Compensation	$1,055,125	$875,953
Distributor	$137,959	$362,453
Regulatory	$271,255	$86,896
Consulting	$295,649	$145,247
Legal	$281,226	$559,699

Compensation expenses are up as we are making investments in personnel as the company grows as well as increased commissions from greater sales throughout 2016. Distributor expenses decreased as we moved away from reliance on third party distributors in various jurisdictions as we receive regulatory approvals. Regulatory & consulting expenses increased significantly due to expanding our footprint throughout the world through jurisdictional and compliance approvals. Legal expenses have decreased as ongoing legal proceedings have been subsiding.

Liquidity and capital resources. As of June 30, 2016 we had total current assets of $3,072,019 and total assets of $17,140,459. This compares to $3,060,695 and $17,971,048, respectively as of December 31, 2015. The increase in current assets as of June 30, 2016 was primarily impacted by an increase in cash and cash equivalents, as well as an increase in inventories. Our total current liabilities as of June 30, 2016 were $7,925,536 versus $7,954,017 as of December 31, 2015. This slight decrease was due to decreases in our current portion of notes payable, due to paying off the $500,000 note to Robert Saucier. Our business model continues to be highly profitable and we have several options to ensure we are able to meet our short-term and long-term obligations.

Research and development expenses for the six months ended June 30, 2016 were $181,221 compared to $269,429, representing a decrease of $88,208, or 32.7%. This decrease is primarily due to less costs surrounding development of our BJS progressive system.

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 June 30, 2016, 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 three months ended June 30, 2016, were non-cash items of $1,375,587, net income of $756,894, decreases in accounts receivable of $71,287, restricted cash of $26,786, accounts payables of $241,189 and increases in inventory of $137,704, accrued expenses of $327,090 and income taxes payable of $349,450 for a total operating activities impact of an increase of $2,654,343 in cash and cash equivalents.

Cash flows used in investing activities for the six months ended June 30, 2016 were $28,832, due to the acquisition of property and equipment. Cash used in financing activities during the six months ended June 30, 2016 was $2,524,011, which was completely comprised of principal payments towards long-term debt and capital leases.

We incur unrealized gains and losses related to foreign currency translation adjustments, which is recorded as other comprehensive income or loss. For the six months ended June 30, 2016 we incurred other comprehensive income of $927,760, net of tax. This amount is primarily due to the unrealized translation adjustment on the note payable due

Prime Table Games – UK, which is due in British Sterling currency. The remaining translation adjustments relate to insignificant amounts in accounts receivable, accounts payable and accrued expenses recorded in foreign currencies. So as long as we have balance sheet items recorded in foreign currencies, such as the note payable, we will be subject to fluctuations against the U.S. Dollar. Additionally, as transactions are settled, the foreign currency translations are realized and recorded as selling, general and administrative expenses on the statement of operations. Such realized translation adjustments are de minimus for the six months ended June 30, 2016.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. 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 the end of the period covered by this Quarterly Report. 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 June 30, 2016 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.

No change in our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of internal controls. Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 12 in Item 8. “Financial Statements and Supplementary Data” included in our annual report on Form 10-K for the year ended December 31, 2015. There are no material updates to matters previously reported on Form 10-K for the year ended December 31, 2015, except:

As discussed in our previous filings, we were served in December 2014 with a complaint by Red Card Gaming, Inc. ("RCG"), and AGS, LLC ("AGS"), regarding an asset purchase agreement ("APA") executed between Galaxy and RCG in September 2012. The complaint filed in the United States District Court for the District of Nevada (the "District Court"), alleged fraud, breach of contract, and trademark infringement, among other allegations. We filed counterclaims against RCG and AGS alleging, among other things, fraud on the trademark office and in the marketplace, misappropriation of our trade secrets, breach of contract, infringement of our trademark and interference with customer relationships. We subsequently filed a demand for arbitration which was required pursuant to terms of the APA. The complaint in the District Court case was stayed pending outcome from the arbitration hearings and both proceedings are collectively referred to as the "Nevada Litigation."

In February 2016, we received notice the arbitration panel (the “Panel”) had issued an interim award (the “Interim Award”) which resulted in, among other things, our retention of all rights and privileges in the ownership of the product and trademark High Card Flush, and an injunction prohibiting AGS and RCG from selling the High Card Flush game and using the trademark. In March 2016, the Panel issued a recovery order (“Recovery Order”) and determined that Galaxy was due 70% of its reasonable attorney fees. Additional briefing on the matter, relating to questions about the nature and amount of attorneys’ fees incurred was requested and provided.

On May 16, 2016, the arbitration panel issued a final award (the "Final Award") incorporating the Interim Award and awarding us our attorneys' fees and costs.

On July 11, 2016, we entered into a settlement agreement (the "Settlement Agreement") with RCG and AGS for purposes of resolving the Nevada Litigation as well as the "In Bet Litigation" further referenced below. Pursuant to the Settlement Agreement, among other things, RCG, AGS and us agreed to a mutual release of all claims and counter-claims. RCG and AGS also agreed to terminate all of their rights and obligations related to the APA, and AGS agreed to pay us the sum of $350,000 and agreed to the injunctive terms of the Final Award. Furthermore, we agreed to dismiss the complaint it filed in November 2014 against In Bet Gaming, Inc. and In Bet, LLC (collectively "In Bet"), alleging that In Bet's In-Between side bet game infringed one of our patents. AGS became involved in an Inter-Partes Review subsequent to November 2014 concerning the patent at issue because AGS had title and interest in the game In-Between.

ITEM 5. OTHER INFORMATION

As of March 13, 2016, the Company entered into separate indemnification agreements with each of its directors and officers. Each indemnification agreement provides, among other things, for indemnification to the fullest extent permitted by law and the articles of incorporation, as amended, and bylaws, as amended, against (i) any and all expenses and liabilities, including judgments, fines, penalties, interest and amounts paid in settlement of any claim with the Company’s approval and counsel fees and disbursements, and (ii) any liabilities incurred as a result of acting on behalf of the Company (as a fiduciary or otherwise) in connection with an employee benefit plan. The indemnification agreements provide for the advancement or payment of expenses to the indemnitee and for reimbursement to the Company if it is found that such indemnitee is not entitled to such indemnification under applicable law and the Company’s articles of incorporation and bylaws, each as amended.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
101	Financials in XBRL format

* In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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: August 15, 2016

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

Galaxy Gaming, Inc.

Date: August 15, 2016

By: /s/ GARY A. VECCHIARELLI
Gary A. Vecchiarelli
Chief Financial Officer (Principal Accounting Officer)