

Galaxy Gaming, Inc.
Form 10-Q
May 17, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended March 31, 2011

Transition Report pursuant to 13 or 15(d) of the Securities Exchange
Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-30653

Galaxy Gaming, Inc.
(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

20-8143439
(IRS Employer Identification No.)

6980 O'Bannon Drive, Las Vegas, Nevada 89117
(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)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes No

Indicate by check mark whether the 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

Non-accelerated
filer

Edgar Filing: Galaxy Gaming, Inc. - Form 10-Q

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,508,091 common shares as May 16, 2011.

Table of Contents

TABLE OF CONTENTS

Page

PART I – FINANCIAL INFORMATION

<u>Item 1:</u>	<u>Financial Statements</u>	<u>3</u>
	<u>Management’s Discussion and Analysis of Financial</u>	
<u>Item 2:</u>	<u>Condition and Results of Operations</u>	<u>4</u>
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>13</u>
<u>Item 4T:</u>	<u>Controls and Procedures</u>	<u>13</u>

PART II – OTHER INFORMATION

<u>Item 1:</u>	<u>Legal Proceedings</u>	<u>14</u>
<u>Item 1A:</u>	<u>Risk Factors</u>	<u>14</u>
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>14</u>
<u>Item 3:</u>	<u>Defaults Upon Senior Securities</u>	<u>14</u>
<u>Item 4:</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>14</u>
<u>Item 5:</u>	<u>Other Information</u>	<u>14</u>
<u>Item 6:</u>	<u>Exhibits</u>	<u>14</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- F-1 Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010 (Derived from Audited financial statements);
- F-2 Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited);
- F-3 Consolidated Statements of Stockholders' Equity (Deficit) as of March 31, 2011 (unaudited);
- F-4 Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited);
- F-5 Notes to Financial Statements;

Table of Contents

GALAXY GAMING, INC.
BALANCE SHEETS
(UNAUDITED)

ASSETS	March 31, 2011	December 31, 2010 Derived from audited financial statements
Current Assets		
Cash and cash equivalents	\$ 468,507	\$ 444,434
Accounts receivable - trade, net	323,365	311,961
Miscellaneous receivables	15,117	15,790
Prepaid expenses	35,897	24,940
Inventory	194,758	175,372
Note receivable – related party – current portion	16,724	16,475
Total Current Assets	1,054,368	988,972
Property and Equipment, net	45,590	44,101
Other Assets		
Intellectual property, net	118,069	119,831
Intangible assets	340,387	346,790
Note receivable - related party - net of current portion	400,019	403,975
Other	17,207	18,113
Total Other Assets	875,682	888,709
TOTAL ASSETS	\$ 1,975,640	\$ 1,921,782
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 142,173	\$ 195,899
Accrued expenses and taxes	161,228	108,103
Accrued interest – related party	28,328	25,973
Deferred revenue	225,095	220,867
Notes payable - related party	42,067	107,850
Note payable - current portion	60,115	81,058
Total Current Liabilities	659,006	739,750
Long-Term Debt		
Note payable, net of current portion	1,142,127	1,148,448
TOTAL LIABILITIES	1,801,133	1,888,198
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, 65,000,000 shares, \$.001 par value common stock authorized; 35,508,091	35,507	34,974

Edgar Filing: Galaxy Gaming, Inc. - Form 10-Q

shares issued and outstanding (2010 – 34,974,758)		
Additional paid in capital	1,413,311	1,252,393
Stock warrants	513,181	470,632
Stock subscription receivable	(7,462)	(10,520)
Accumulated deficit	(1,780,030)	(1,713,895)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	174,507	33,584
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,975,640	\$ 1,921,782

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

F-1

Table of Contents

GALAXY GAMING, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE THREE MONTHS ENDED	
	March 31, 2011	March 31, 2010
Gross Revenues	\$ 781,110	\$ 754,027
Costs of Ancillary Products and Assembled Components	28,701	48,092
Selling, general and administrative	735,699	691,780
Research and development	64,515	91,371
Total costs and expenses	828,915	831,243
Net Operating (Loss)	(47,805)	(77,216)
Other Income (Expense)	(18,330)	(22,292)
Net (Loss) before Income Taxes	(66,135)	(99,508)
Provision for Income Taxes	-	-
Net (Loss)	\$ (66,135)	\$ (99,508)
Weighted average number of shares outstanding		
Basic	35,188,091	33,076,186
Fully Diluted	37,045,473	34,112,615
Net (Loss) per Share		
Basic	\$ (0.00)	\$ (0.00)
Fully Diluted	\$ (0.00)	\$ (0.00)

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

Table of Contents

GALAXY GAMING, INC.
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)
AS OF MARCH 31, 2011

	Common Shares	Stock Amount	Additional Paid in Capital	Stock Warrants	Stock Subscription Receivable	Accumulated Deficit	Total
Balance, January 1, 2010	33,056,186	\$33,056	\$944,774	\$147,504	\$(25,967)	\$(1,578,034)	\$(478,667)
Shares issued for payment of accounts payable	40,000	40	15,960	-	-	-	16,000
Share based compensation expense	-	-	26,665	-	-	-	26,665
Payments received on stock subscription receivable	-	-	-	-	15,447	-	15,447
Shares issued under private placement financing	1,428,572	1,428	498,572	-	-	-	500,000
Issuance of stock warrants	-	-	(323,128)	323,128	-	-	-
Shares issued in connection with asset acquisition	450,000	450	89,550	-	-	-	90,000
Net loss for the year ended December 31, 2010	-	-	-	-	-	(135,861)	(135,861)
Balance, December 31, 2010	34,974,758	34,974	1,252,393	470,632	(10,520)	(1,713,895)	33,584
	533,333	533	199,467	-	-	-	200,000

Edgar Filing: Galaxy Gaming, Inc. - Form 10-Q

Shares issued under private placement financing							
Share based compensation expense	-	-	4,000	-	-	-	4,000
Payments received on stock subscription receivable	-	-	-	-	3,058	-	3,058
Issuance of Stock warrants	-	-	(42,549)	42,549	-	-	-
Net loss for the three months ended March 31, 2011	-	-	-	-	-	(66,135)	(66,135)
Balance, March 31, 2011	35,508,091	\$35,507	\$1,413,311	\$513,181	\$(7,462)	\$(1,780.030)	\$174,507

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

Table of Contents

GALAXY GAMING, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Net loss from operations	\$ (66,135)	\$ (99,508)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation expense	4,191	3,991
Amortization expense	8,165	1,762
Provision for bad debts	9,000	9,000
Share-based compensation	4,000	4,000
Changes in Assets and Liabilities		
(Increase) in accounts receivable	(20,404)	(10,890)
(Increase) decrease in miscellaneous receivable	673	(201)
(Increase) decrease in prepaid expenses	(10,957)	6,480
(Increase) in inventory	(19,387)	(22,975)
(Decrease) in accounts payable	(53,727)	(35,490)
Increase (decrease) in accrued expenses and taxes	53,125	(4,517)
Increase in accrued interest – related party	2,357	2,309
Increase in deferred revenue	4,228	7,466
Net Cash (Used in) Operating Activities	(84,871)	(138,573)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(5,680)	(6,509)
Increase (decrease) in other assets	906	(20,825)
Payments received on note receivable	3,707	12,955
Net Cash (Used in) Provided by Investing Activities	(1,067)	(14,379)
Cash Flows from Financing Activities:		
Principal payments on notes payable – related party	(65,783)	(54,937)
Payments received on stock subscription receivable	3,058	4,666
Principal payments on note payable	(27,264)	(5,705)
Proceeds from issuance of common stock	200,000	-
Net Cash Provided by (Used in) Financing Activities	110,011	(55,976)
Net Increase (Decrease) in Cash and Cash Equivalents		
	24,073	(208,928)
Cash and Cash Equivalents – Beginning of Year	444,434	408,839
Cash and Cash Equivalents – End of Year	\$ 468,507	\$ 199,911
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 21,505	\$ 26,924
Cash paid for income taxes	\$ -	\$ -

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

F-4

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

Note 1: Nature of Operations

On January 1, 2007, Galaxy Gaming, LLC (“GGLLC”), which was organized as a Nevada limited liability company on September 27, 2000, entered into several agreements with GGINC. Pursuant to these agreements, GGLLC sold selected assets, such as inventory and fixed assets, to GGINC. On December 31, 2007, GGINC acquired, through an asset purchase agreement, GGLLC’s remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. GGINC also acquired the existing client base from GGLLC.

On February 10, 2009, Secured Diversified Investment, Ltd. (“SDI”) acquired all of the issued and outstanding stock of Galaxy Gaming, Inc. (“GGINC”) pursuant to the terms of a Share Exchange Agreement. Following the closing of the Share Exchange Agreement, SDI discontinued all prior operations and focused exclusively on the business and operations of its wholly-owned subsidiary, GGINC. GGINC was incorporated in the State of Nevada on December 29, 2006 and acquired the business operations of one or more companies using the “Galaxy Gaming” moniker.

In August of 2009 upon filing articles of merger in Nevada, GGINC was merged into SDI. At the effective date the separate legal existence of GGINC ceased and the surviving corporation in the merger (SDI) continued its existence under the laws of the State of Nevada under the name Galaxy Gaming, Inc. (“the Company”).

The Company designs, manufactures and markets casino table games and electronic jackpot bonus system platforms played in land-based and cruise ship gaming establishments. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. The Company markets its products and licensed intellectual property via its own sales force to casinos throughout North America and to cruise ships worldwide. Revenues come primarily from recurring royalties received from its clients for the licensing of game content and other fees paid based upon the performance of its electronic platforms. Additionally, the Company receives revenue as reimbursement from the sale of its associated products.

On February 21, 2011 the Company entered into a definitive agreement with TableMAX Corporation (TMAX) a provider of electronic table games and platforms headquartered in Las Vegas, Nevada. Under the terms of the agreement, the Company has exclusive worldwide rights (excluding one international and two U.S. territories) to the TMAX electronic gaming platform and certain game titles. See Note 17.

Note 2: Significant Accounting Policies

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied to the preparation of the financial statements.

Basis of Presentation

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Form 10-K filed with the SEC as of and for the period ended December 31, 2010. In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Basis of Accounting

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

F-5

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 2: Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers 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.

The Company's bank accounts are deposited in insured institutions. The funds are insured up to \$250,000. At March 31, 2011 the Company's bank deposits exceeded the insured amounts. Management believes it has little risk related to the excess deposits.

Reclassifications

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

Inventory

Inventory consists of products designed to enhance table games, such as signs, layouts, bases for the different signs and electronic devices to support our enhanced bonus platforms. The inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. Signs and layouts do not change unless the table game changes. The Company does not allocate overhead to inventory as such costs are not significant.

Fair Value of Financial Instruments

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

Property and Equipment

The capital assets are being depreciated over their estimated useful lives using the straight-line method of depreciation for book purposes.

Intangible Assets

The Company acquired, with an asset purchase agreement from GGLLC, the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including, but not limited to, games, side bets, inventions and ideas.

These intangible assets have finite lives and are being amortized using the straight-line method over their economic useful lives of twenty years. The intangible assets are analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. These assets were transferred at cost.

The Company purchased back a regional territory from an outside sales representative. The total value of this agreement was \$150,000 and the resulting intangible asset has an infinite life.

As more fully described in Note 18, the Company executed an Asset Purchase Agreement on April 15, 2010 with T&P Gaming, Inc., and its majority owners whereby the Company acquired the client installation base, intellectual

property, territorial license and related inventory associated with the “Deuces Wild Hold’em Fold’em game (“Deuces Wild”) and related “Random Wild” game.

F-6

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 2: Significant Accounting Policies (continued)

Intangible Assets (continued)

The client installation base and intellectual property have finite lives and are being amortized using the straight-line method over the following economic useful lives:

Client installation base	Sixty months
Patent	Eighty seven months
Trademark	One hundred forty four months

The intangible assets are analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The territorial license has an infinite life.

Revenue Recognition

Revenue is primarily derived from the licensing of products and intellectual property. Consistent with the Company's strategy, revenue is generated from negotiated recurring licensing fees for table game content and the performance of the electronic table game platform. The Company also receives a one-time sale or reimbursement of the manufactured equipment. When a table game is licensed without electronic enhancements, the Company generally sells the associated products and negotiates a month-to-month license fee for the game content. When a table game is licensed with electronic enhancements, such as the Bonus Jackpot System, the Company generally sells the associated products, negotiates a month-to-month license fee for the game content, and collects an additional recurring fee associated with the performance of the system such as a fee per each wager placed.

Substantially all revenue is recognized when it is earned. Clients are typically invoiced one month in advance for content fees and the advance billings are carried as deferred revenue on the balance sheet. Additionally, clients may be invoiced at the time of shipment or delivery of product sales and invoiced in arrears for performance-based items. The monthly recurring invoices are based on executed agreements with each client. Total revenue from recurring royalties for the licensing of game content, fees paid based upon the performance of our electronic platforms was \$762,625 and \$711,434 for the three months ended March 31, 2011 and 2010 respectively. Revenue from reimbursement from the sale of product was \$18,485 and \$42,593 for the three months ended March 31, 2011 and 2010 respectively.

Revenue as reimbursement from the sale of our associated products is recognized when the following criteria are met:

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

The software included in the Bonus Jackpot System serves to assist in the count of the number of wagers; essentially the software is incidental to the operation of the system. As such the Company does not segregate the portion of revenue between manufactured equipment and any software or electronic devices needed to use the equipment when the system is sold. Furthermore, the Company does not market the software separately from the equipment.

Costs of Ancillary Products and Assembled Components

Costs of Ancillary Products and Assembled Components include pay tables, layouts and signage as it relates to a specific proprietary game that our client may elect to purchase in connection with the use of our game and the cost of the assembled components of the Bonus Jackpot System.

F-7

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 2: Significant Accounting Policies (continued)

Research and Development

Research and development costs are charged to expense when incurred and are included in the consolidated statements of operations. These costs include salaries, benefits, and other internal costs allocated to software and hardware development efforts, as well as purchased components.

Deferred Income Taxes

Deferred income taxes are recognized by applying enacted statutory rates, applicable to future years, to temporary differences between the tax bases and financial statement carrying values of the Company's asset and liabilities. Valuation allowances are recorded to reduce deferred tax assets to amounts that are more likely than not to be realized.

Basic Income (Loss) per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value in accordance with ASC Topic 718. During the year ended December 31, 2010 the Board of Directors approved the adoption of a stock option plan. The Company has not granted any stock options under this plan.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions have been made in determining the depreciable lives of such assets and the allowance for doubtful accounts receivable. Actual results could differ from those estimates.

Recently Issued Accounting Guidance

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

Note 3: Note Receivable – Related Party

The note receivable at March 31, 2011 and December 31, 2010 was as follows:

	2011	2010
Note receivable	\$ 416,743	\$ 420,450
Less: current portion	(16,724)	(16,475)
Long-term Note Receivable	\$ 400,019	\$ 403,975

Table of Contents

GALAXY GAMING, INC.
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2011

Note 3: Note Receivable (continued)

The Company acquired, with an asset purchase agreement from the LLC, the note receivable stated above, as part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. The purchase was financed by a ten year unsecured note with a 6% fixed interest rate, monthly principal and interest payments of \$6,598 with the unpaid principal and interest due in February 2017. Interest income associated with this note receivable was \$6,288 and \$6,840 for the three months ended March 31, 2011 and 2010 respectively. The terms of the note were amended in September 2010 whereby (1) the monthly principal and interest payment was reduced to \$3,332; (2) the unpaid principal and interest is due August 2015 and (3) the note will be collateralized by a second deed of trust on real property.

Management evaluates collectability on a regular basis and will set up reserves for uncollectible amounts when it has determined that some or all of this receivable may be uncollectible. At March 31, 2011 management believed that 100% of the notes receivable principal and interest amounts are collectable.

Note 4: Prepaid Expenses

Prepaid expenses consist of the following as of March 31, 2011 and December 31, 2010:

	2011	2010
Prepaid marketing agreement	\$ -	\$ 4,000
Prepaid IT system	2,623	7,292
Prepaid insurance	477	463
Prepaid legal	10,016	-
Prepaid trade show expense	17,109	8,583
Prepaid property taxes	1,859	3,718
Prepaid other	3,813	884
Total Prepaid Expenses	\$ 35,897	\$ 24,940

Note 5: Property and Equipment

The Company owned property and equipment, recorded at cost, which consisted of the following at March 31, 2011 and December 31, 2010:

	2011	2010
Computer equipment	\$ 41,189	\$ 37,403
Furniture and fixtures	51,187	51,187
Office equipment	10,320	10,320
Leasehold improvements	5,544	3,650
Subtotal	108,240	102,560

Less: Accumulated depreciation	(62,650)	(58,459)
Property and Equipment, net	\$ 45,590	\$ 44,101

Depreciation expense was \$4,191 and \$3,991 for the three months ended March 31, 2011 and 2010, respectively.

F-9

Table of Contents

GALAXY GAMING, INC.
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2011

Note 6: Accrued Expenses and Taxes

The Company recorded accrued expenses and taxes which consisted of the following at March 31, 2011 and December 31, 2010:

	2011	2010
Wages and related costs	\$ 108,268	\$ 85,515
Accrued expenses and taxes	52,960	22,588
Total Accrued Expenses and Taxes	\$ 161,228	\$ 108,103

Note 7: Long – term Debt

Long - term debt consists of the following at March 31, 2011 and December 31, 2010:

	2011	2010
Note payable to commercial bank	\$ 1,166,279	\$ 1,172,393
Notes payable asset acquisition	35,963	57,113
	1,202,242	1,229,506
Less: Current portion	(60,115)	(81,058)
Total Long – term debt	\$ 1,142,127	\$ 1,148,448

The note payable is due to a commercial bank in monthly installments of \$9,159 including fixed interest of 7.3%, for ten years, through February 2017, at which time there is a balloon payment of \$1,003,230. This liability was assumed with the asset purchase agreement from GGLLC. The note payable financed the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. The note agreement remains in the name of GGLLC.

In connection with the Asset Purchase Agreement executed on April 15, 2010, (see Note 18), the Sellers agreed to finance \$126,000 over eighteen months at an interest rate of 6% per annum. Monthly principal and interest payments of \$7,301 are required with the first payment paid upon closing.

Maturities of the Company's long-term debt as of March 31, 2011 are as follows:

March 31,	
2011	\$60,115
2012	26,236
2013	28,243
2014	30,410

2015 32,526

Thereafter 1,024,712

Total Long –
term Debt \$1,202,242

F-10

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 8: Notes Payable - Related Party

The Company received working capital loans from GGLLC, a related party, in 2008 and 2007. The loans bear 9% interest and are due 90 days after demand. The terms of the loan call for interest to be accrued on interest if payments are not made. Interest expense associated with these loans was \$2,496 and \$7,372 for the three months ended March 31, 2011 and 2010 respectively.

Note 9: Commitments and Contingencies
Operating Lease Obligation

The Company leases its offices from a related party that is related to the Company's CEO. The initial term of the lease expired August 31, 2010 and there was an option for two six year renewals. Under the terms of the lease agreement the monthly minimum rental payment was \$18,565 and rent increased 3% every year on September 1st. Effective April 1, 2010 the related party agreed to temporarily reduce the monthly rent to \$9,283 until the end of the initial lease period. On September 1, 2010 a new lease was entered into for a period of two years with a monthly rental payment of \$10,359. Rent expense was \$31,080 and \$55,697 for the three months ended March 31, 2011 and 2010 respectively.

Rent to be paid under the lease agreement is summarized as follows:

Twelve months ended March 31,	
2012	\$ 124,308
2013	51,795
Total Lease Obligation	\$ 176,103

Legal Proceedings

In the ordinary course of business, we may be involved in various legal proceedings and other matters that are complex in nature and have outcomes that are difficult to predict. 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 in 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 our annual report on Form 10-K for the year ended December 31, 2010.

Sherron Associates, Inc. – A judgment was issued in Washington State against the Company's CEO and others in a manner unrelated to the Company in 1998. In 2008, Sherron Associates, Inc., a Washington company, ("Sherron") claimed to be the assignee of the judgment and disguised through a non-existent company it alleged to control, sued the Company, our CEO and various other parties both related and unrelated to the Company in the Superior Court of the State of Washington for the County of King in 2008. Sherron claims it is the assignee of the judgment and the

Company is the alter-ego of our CEO and therefore responsible for payment of the judgment. Also in 2008, Sherron filed suit against the Company in Nevada attempting to execute the judgment against certain intellectual property of the Company, claiming the property belongs personally to the Company's CEO. The Company disputes all claims and is exempt from any alter-ego claims since it is a fully reporting public entity with a separate and distinct legal existence. The Company has filed a suit against Sherron in Clark County, Nevada for various abuses of process in the litigation and their malicious attempts to improperly enforce a judgment. In May 2011, Sherron, the Company and our CEO agreed to enter a mediation process. All litigation is currently stayed, pending the outcome of the mediation.

F-11

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 9: Commitments and Contingencies (continued)

We deny any liability or wrongdoing in the Sherron litigation. We believe that the above claims and litigation are without merit and intend to vigorously defend any case brought against us. Due to the uncertainty of the ultimate outcome of this matter, the impact, if any, on future financial results is not subject to reasonable estimates.

The Company paid legal fees directly to the law firm retained by its CEO. The law firm was employed in 2009, 2010 and 2011 for the express purpose of defending the Sherron litigation described above. Total fees from this law firm charged to expense were \$4,314 and \$12,208 for the three months ended March 31, 2011 and 2010 respectively.

In the ordinary course of conducting its business, the Company may be, from time to time, involved in other litigation, administrative proceedings and regulatory government investigations including but not limited to those in which the Company is a plaintiff.

Note 10: Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on periodic reviews of accounts receivable. As of March 31, 2011 and December 31, 2010, the Company had an allowance for doubtful accounts of \$28,912 and \$19,912, respectively.

Note 11: Capital Stock

The Company 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 March 31, 2011 and December 31, 2010. During the three months ended March 31, 2011 the Company sold a total of 533,333 shares of common stock and 266,667 warrants for total cash proceeds of \$200,000. During the year ended December 31, 2010 the Company sold a total of 1,428,572 shares of common stock and 714,286 warrants for total cash proceeds of \$500,000. During the three months ended March 31, 2011, the Company sold 533,333 common shares in a private placement for \$200,000. There were 35,508,091 common shares and -0- preferred shares issued and outstanding at March 31, 2011.

Note 12: Related Party Transactions

The company leases its offices from a related party that is related to the company's CEO. Effective September 1, 2010 the lease was renegotiated with the related party, for a period of two years with a monthly rental payment of \$10,359. See Note 9.

The Company has agreed to pay the legal expenses incurred by its CEO's attorneys pertaining to its defense in the Sherron litigation, (See Note 9). Total fees from this law firm charged to expense were \$4,314 and \$12,208 for the three months ended March 31, 2011 and 2010 respectively.

The Company has a note receivable from a related party totaling \$416,743 and \$420,450 at March 31, 2011 and December 31, 2011 respectively. See Note 3.

The Company has a note payable to a related party totaling \$42,067 and \$107,850 at March 31, 2011 and December 31, 2010 respectively. Additionally there is accrued interest owed to the related party totaling \$28,328 and \$25,973 at March 31, 2011 and December 31, 2010 respectively. See Note 8.

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 13: Other Income (Expenses)

Other income (expenses) of the Company consists of the following for the three months ended March 31, 2011 and 2010:

	2011	2010
Interest income	\$ 6,288	\$ 6,840
Interest expense	(24,618)	(29,132)
Total Other Income (Expenses)	\$ (18,330)	\$ (22,292)

Note 14: Income Taxes

For the three months ended March 31, 2011 and year ended December 31, 2010, the Company incurred a net loss and, therefore, has no tax liability. The Company has a previous net operating loss carry-forward of \$1,160,000. The losses will be carried forward and can be used through the year 2028 to offset future taxable income up to a cumulative total of approximately \$1,226,000. The cumulative net operating loss carry-forward for income tax purposes may differ from the cumulative financial statement loss due to permanent differences and timing differences between book and tax reporting. Additionally, the Company has a foreign tax credit carry-forward of approximately \$192,114 that can be used in the future to offset federal income tax owed.

The Company periodically reviews the need for a valuation allowance against deferred tax assets based upon earnings history and trends. The Company believes that the valuation allowances provided are appropriate.

The cumulative tax effect at the expected rate of 34% of significant items comprising our net deferred tax amount is as follows:

	2011	2010
Deferred tax asset attributable to:		
Net operating loss carryover	\$ 416,840	\$ 394,400
Valuation allowance	(416,840)	(394,400)
Net Deferred Tax Asset	\$ -	\$ -

Note 15: Non-Cash Investing and Financing Cash Flow Disclosures

During the year ended December 31, 2009, the Company sold 101,250 shares of common stock to employees in exchange for various notes receivable totaling \$40,500. As of March 31, 2011 and December 31, 2010, \$7,462 and \$10,520 was still outstanding and has been recorded as a stock subscription receivable.

During the year ended December 31, 2010 the Company sold a total of 1,428,572 shares of common stock and 714,286 warrants for total cash proceeds of \$500,000. Additionally, during the year ended December 31, 2010 the

Edgar Filing: Galaxy Gaming, Inc. - Form 10-Q

Company issued 40,000 shares of common stock in settlement of accounts payable and, in connection with an asset acquisition, the Company issued 450,000 shares of common stock. See Note 18.

On February 24, 2011 the Company sold a total of 533,333 shares of common stock and 266,667 warrants for total cash proceeds of \$200,000.

F-13

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

Note 16: Stock Warrants and Options

As indicated in Note 15 the Company issued 714,286 warrants in connection with the sale of common stock during the year ended December 31, 2010. Additionally the Company issued 266,667 warrants in connection with the sale of common stock during the quarter ended March 31, 2011. The Company has accounted for these warrants as equity instruments in accordance with EITF 00-19 (ASC 815-40), Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, and as such, will be classified in stockholders' equity as they meet the definition of "...indexed to the issuer's stock" in EITF 01-06 (ASC 815-40) The Meaning of Indexed to a Company's Own Stock. The Company has estimated the fair value of the warrants issued in connection with the sale of common stock at \$323,128 for the year ended December 31, 2010 and \$42,549 for the quarter ended March 31, 2011, respectively using the Black-Scholes option pricing model.

The Company issued 46,250 stock options to a board member during each of the three months ended March 31, 2011 and 2010. The warrants were valued at the fair market value of the services performed which resulted in an expense of \$4,000 in each of the three months ended March 31, 2011 and 2010 respectively.

Key assumptions used by the Company are summarized as follows:

	Warrants issued year ended December 31, 2010		Warrants issued quarter ended March 31, 2011	
Volatility	165	%	146	%
Expected dividend yield	0.00	%	0.00	%
Risk-free rate over the estimated expected life of the warrants	1.63	%	0.0066	%
Expected term (in years)	3.0		3.0	

The warrants issued have been accounted for as an equity transaction. The cost of the options issued to the board member was classified as operating expenses for the three months ended March 31, 2011 and 2010 respectively.

A summary of changes in share purchase warrants during the quarter ended March 31, 2011 is as follows:

	Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2011	1,750,715	\$ 0.40
Issued	266,667	\$ 0.40
Exercised	-	-
Expired	-	-
	2,017,382	\$ 0.40

Outstanding, March 31,
2011

F-14

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 16: Stock Warrants and Options (continued)

A summary of changes in stock options during the quarter ended March 31, 2011 is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding, January 1, 2011	291,250	\$ 0.4325
Issued	46,250	\$ 0.3800
Exercised	-	-
Expired	-	-
Outstanding, March 31, 2011	337,500	\$ 0.4253

Note 17: Definitive Agreement with TableMAX Corporation

On February 21, 2011 the Company entered into a definitive agreement (“Agreement”) with TableMAX Corporation (“TMAX”) a provider of electronic table games and platforms headquartered in Las Vegas, Nevada and Mr. Ariel Emanuel, a principal investor in TMAX. Under the terms of the Agreement the Company has exclusive worldwide rights (excluding one international and two U.S. territories) to the TMAX electronic gaming platform and certain games titles. The Company 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 the Company and is not considered owned by, related to, a joint venture partner of or an agent of TMAX in any manner. The term of the Agreement is five years. At any time during the term of the agreement, either TMAX or the Company may make a written offer to purchase the sole ownership of the TableMAX Division. Such offer shall be subject to the parties’ mutual agreement and neither party shall be under any obligation to accept such an offer. If such an agreement has not been consummated within six months of the expiration of the agreement then each party must indicate to the other party no later than six months from the scheduled expiration of the Agreement their intent to renew the Agreement for a term of at least one year.

TMAX agreed to assign, for the term of the agreement, all of its existing gaming installations and usable inventory to the TableMAX Division. The Company agreed to furnish its intellectual property relating to its table game content for use by the TableMAX Division royalty-free for the term of the agreement. The Agreement specifies annual performance targets whereby the Company is required, on a cumulative basis, to have minimum table placements. If the Company fails to meet the performance criteria as defined in the agreement, the Company 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 standard had been obtained.

The Company is responsible for the losses of the TableMAX Division however TMAX has agreed to reimburse the Company during the first 12 months from the date of the Definitive Agreement for operating expenses of the

TableMAX Division up to a maximum of \$600,000. Net profits from the TableMAX Division will be split between the Company and TMAX on a sliding scale basis dependent upon the number of TableMAX Division table installations and profit results as defined in the agreement.

F-15

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011

Note 18: Asset Acquisition

On April 15, 2010 the Company executed an Asset Purchase Agreement (“Agreement”) with T&P Gaming, Inc., and its majority owners (“Sellers”) whereby the Company acquired the client installation base, intellectual property, territorial license and related inventory associated with the “Deuces Wild Hold’em Fold’em game (“Deuces Wild”) and related “Random Wild” game.

The purchase price of \$216,000 was allocated as follows:

Description	Amount
Client installation base	\$ 115,200
Patent	10,800
Trademark	13,000
Territorial license	77,000
Total	\$ 216,000

The Sellers agreed to finance \$126,000 over eighteen months at an interest rate of 6% per annum. Monthly principal and interest payments of \$7,301 are required with the first payment paid upon closing. Additionally, the Company agreed to transfer to the Sellers \$90,000 worth of the Company’s common stock at such time the Sellers assigned the valid and fully enforceable patent to the Company. Such assignment was completed and 450,000 shares of the Company’s common stock were issued during the year ended December 31, 2010.

The Agreement also has a bonus performance provision, whereby the Company will pay to the Sellers \$50 per month, per table over 10 games placed in the United States. The bonus performance is not due until a game is in its fourth month of live play. No performance bonuses have been paid during the three months ended March 31, 2011.

Note 19: Subsequent Events

In accordance with SFAS 165 (ASC 855-10) the Company has analyzed its operations subsequent to March 31, 2011 to May 16, 2011, the date these financial statements were issued, and has determined that it does not have any additional material subsequent events to disclose.

Table of Contents

Item 2. Management's Discussion and Analysis and Plan of Operation

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" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimate," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. We intend for such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which 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. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Company Overview and Plan of Operation

We are engaged in the business of developing proprietary casino table games and associated technology and systems for the gaming industry. We receive fees in the form of recurring revenues for our intellectual property, technology and services we provide to land-based, riverboat and cruise ship casinos in the United States and internationally. 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. Historically, our revenues are primarily derived from two product categories we classify as "Proprietary Table Games" and "Enhanced Table Systems". The Enhanced Table Systems serves as a vehicle to deploy additional Proprietary Table Games and provide us with added revenue streams via performance payments. We are also seeking to increase our revenues through interconnected systems related to gaming operations which we refer to as the "Inter-Casino Jackpot System." Also in February 2011, we entered the fully automated "e-Table Systems" business as a result of a business arrangement with TableMAX Corporation.

Table of Contents

Proprietary Table Games.

We develop and deliver proprietary game titles that enhance our casino clients' table game operations. Our table games are grouped into two product types which include stand-alone proprietary "Premium Games" as well as proprietary features added to public domain games such as poker, baccarat, pai gow poker and blackjack table games, also known as "Side Bets". 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 the increased profitability for casinos.

Our proprietary table games are listed below. Additional information regarding our games may be found on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

Side Bets. Side Bets are typically used to enhance public domain games such as blackjack, baccarat and poker. Our Side Bets include:

- Lucky Ladies
- Bonus Blackjack
 - Super Pairs
- Suited Royals
- Lucky 8 Baccarat
 - 21 Magic
 - Bust Bonus
- Emperor's Treasure
- Pai Gow Insurance
 - Quick Draw
 - Double Match
 - Triple Match

Table of Contents

Premium Games. We currently offer several stand-alone premium Proprietary Table Games. Typically these premium games generate more revenue per unit than the Side Bet games. Our Premium Games include:

- Texas Shootout
- Emperor's Challenge
- Three Card Split
 - Deuces Wild
- Triple Attack Blackjack
 - Player's Edge 21
 - Kokomo Stud
- Buffalo Blackjack Bonus

Internally, the Company tracks revenues by each of its proprietary casino games. The Company does not internally track the cost associated with the revenue of each of its proprietary casino games since it would require subjective allocations of common costs.

Enhanced Table Systems

In 2008 we began deployment of a research and development project to create an electronically enhanced table game platform known as the Bonus Jackpot System. We developed our Bonus Jackpot System to compete with our competitors' progressive jackpot systems. Early in its design, we decided to not simply emulate the standard progressive jackpot system, but instead 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 revenues to the research and development of this system.

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 and 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 version or series of the Bonus Jackpot System, known as the "Milky Way Series," was first installed into a casino in March, 2009. We consider the Milky Way Series to have been a success, as it was our entry into developing electronic bonusing platforms, is currently in use, and it continues to generate additional recurring revenue for us. Once Milky Way was deployed, we began development of the next series of our Bonus Jackpot System, labeled the "Andromeda Series," which continues our branding of each major release of the Bonus Jackpot System with the name of a known galaxy. Early in 2010, we completed development of "Andromeda Series – Stage 1." 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. 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. Among other improvements, Stage 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. Stage 2 also introduced an advanced sensor design placed in front of each player which increases reliability and provides the player with a positive indication when their wager is made. In March 2011, we released Andromeda Series – Stage 3 which adds advanced player display options. We continue to develop

enhancements and improvements to our Andromeda Series and concurrently, we have begun development of our next major series which is referred to as the “Triangulum Series.”

The Bonus Jackpot System is an additional mechanism for earning revenue relating to the placement of our Proprietary Table Games and also allows us to place additional Proprietary Table Games. It also facilitates the ability for us to increase our recurring revenues through performance payments. Currently, all of the Bonus Jackpot Systems installed in our clients’ casinos, utilize our Proprietary Table Games and generate additional revenue via performance payments.

Table of Contents

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. On July 1, 2010 we commenced our Inter-Casino Jackpot System program in Washington State as a result of authorization we received from the Washington State Gambling Commission in March, 2010. The program was interrupted on July 29, 2010 when a staff member of the Commission instructed the Company to discontinue this program due to alleged inconsistencies with existing Commission rules. The preliminary demand for this product and the resulting revenues the Company recorded during the period the program was authorized, indicated this opportunity could be

substantially beneficial to the Company if allowed to continue. On March 5, 2011, the Company submitted a Petition for Rule Change to the Commission, which if approved, will allow us to offer this system in Washington. Our petition is scheduled to be presented to the Commission for their consideration for filing at their July 14, 2011 meeting. The Company is also seeking to commence this program in other jurisdictions.

In April, 2011, using our proprietary Andromeda Series – Stage 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 links our proprietary Deuces Wild game operating in each of the nine casinos and allows Station Casinos to offer a combined jackpot. The Company is also seeking to commence this program in other jurisdictions.

e-Table Systems

On February 21, 2011, we entered into a definitive agreement with TableMAX Corporation granting us the worldwide rights (excluding one international and two U.S. territories) to the TableMAX e-Table system various domestic and international. The TableMAX e-Table system is a fully automated, dealer-less, five 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.

Table of Contents

Strategy

Our long-term business strategy is designed to capitalize on the opportunities we perceive within the gaming industry. We are currently the second largest provider of proprietary table games in the world and a relative newcomer to developing and providing advanced electronic table game platforms. The vast majority of our income is derived from high margin recurring licensing and lease fees that we earn on a monthly basis. Our plan is to increase the recurring revenues we receive by employing the following strategies:

1. Develop and/or acquire new products and game content.
2. Enhance our portfolio of games with Enhanced Table Systems.
3. Expand our distribution network.
4. Introduce our Inter-Casino Jackpot System.

Develop and/or Acquire New Products and Game Content

We are continuously developing new table games to complement our existing offerings and to extend our penetration of proprietary table games on the casino floor. We have expanded our product line through the internal development of new and innovative products and game content as well as acquiring existing competing products and proprietary games. By developing, acquiring and offering additional products and game titles, we hope to increase our domestic and international market penetration and increase our recurring revenues.

We expect continued growth in our recurring revenues through the development and/or acquisition of new products and game content. In 2010, the Company announced the release of several new casino table game titles including Triple Attack Blackjack, Buffalo Blackjack Bonus, 21 Magic, Bust Bonus, and Kokomo Stud. Subsequently, we have created additional game titles including Player's Edge 21, Quick Draw, and Double Match. On April 15, 2010, the Company executed an Asset Purchase Agreement with T&P Gaming, Inc., and its majority owners whereby the Company acquired the client installation base, intellectual property and related inventory associated with Deuces Wild Hold'em Fold'em. In February 2011, we acquired the worldwide rights to the TableMAX e-Table system and simultaneously obtained the e-Table rights to Caribbean Stud, Caribbean Draw, Progressive Blackjack, Texas Hold'em Bonus and Blackjack Bullets.

In 2010, we continued the development of our Bonus Jackpot System and released the Andromeda Series. We believe the enhancements offered by the Andromeda Series provide significantly benefits to the casino operator than what is currently available. We believe these added benefits will result in increasing placements and generate additional recurring revenue for the Company. During 2011, we intend to continue the development of the Andromeda Series and commence the development of the next generation of the Bonus Jackpot System, which we have labeled the "Triangulum Series."

Our future plans are to continue to create and/or acquire innovative products and games. Currently, the majority of our product development is led by our founder and CEO, Mr. Saucier. We intend to expand our research and development team to lessen our dependency on our CEO for this important element.

Table of Contents

Enhance Our Portfolio of Games with Enhanced Table Systems

Since the introduction of our first Enhanced Table System known as the “Bonus Jackpot System – Milky Way Series” into a casino in March 2009, we have received a fee from casinos based upon the amount of wagers placed by their players. In 2010 we released the “Andromeda Series” which we began installations in October, 2010. In 2011, we will be installing Andromeda Series – Stage 2 and Stage 3, both of which offer multiple sensors per playing position. This addition will allow us to collect a fee on multiple wagers per player versus only one today. We have modified most of our Proprietary Table Games and many of our Side Bets to benefit from the economics the new system affords us. In the future, we intend to be able to offer this platform for all games. Additionally, we expect that most or all of our new Proprietary Table Games will include the Bonus Jackpot System component.

Our goal for 2011 and future years is to convert our existing Proprietary Table Game placements that do not incorporate our Enhanced Table System in casinos to this enhanced gaming platform, thereby generating additional recurring revenues for us in 2011 and beyond.

Expand Our Distribution Network

Currently, distribution of our products is limited to casinos in North America, the Caribbean and on cruise ships internationally. We intend to increase our recurring revenues and market share throughout all available international markets. Expanding our distribution network requires that we first seek and obtain registration or licensing in most additional gaming jurisdictions. In regulated gaming jurisdictions, this is not always a simple task. Accordingly, our plan is to selectively choose jurisdictional expansion opportunities whereby we believe we can obtain the greatest results compared against the cost and duration of the regulatory approval process.

In addition to jurisdictional expansion, we intend to expand our distribution network through the growth of our sales team. Our sales team consists of five full-time employees and one independent contractor. We anticipate we will add to our sales team in 2011 and future years.

We also intend to expand the domestic and international presence of our proprietary game library through new distribution channels such as through our TableMAX e-Table product line, licensing arrangements with other table game industry vendors and through legal gaming sites operating via the Internet.

Table of Contents

Introduce our Inter-Casino Jackpot System

On July 1, 2010 the Company commenced its Inter-Casino Jackpot System program in Washington State and continued until July 29, 2010. Formerly known as the Manufacturer's Gambling Promotion, the Inter-Casino Jackpot System is designed to assist casino operators with the ability to offer increased incentives and promotions, including but not limited to substantial life-altering cash jackpots, which in turn, can potentially attract additional customers to their establishment. Competition among casinos is intense and although many casino operators can (and do) provide numerous promotions, most are either financially restrained from offering larger, more lucrative prizes and promotions or concerned about the effect the award of a large prize can have on the casino's bottom line for the reporting period.

During the period last year when we operated the system, we collected critical information including the player acceptance and participation and the potential profitability of operating the Inter-Casino Jackpot System. This information led us to continue to seek opportunities to offer this system. As a result, the Company submitted a Petition for Rule Change to the Washington State Gambling Commission, on March 5, 2011. Subsequently, we have had discussions with the Gambling Commission, which may cause us to alter our Petition, prior to presenting it to the Commissioners for filing at their next regularly scheduled meeting on July 14, 2011. We believe the anticipated alterations to our Petition to be fiscally immaterial and if approved, we expect to offer this system to casino operators in Washington later this year.

In April, 2011, 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 links our proprietary Deuces Wild game operating in each of the nine casinos and allows Station Casinos to offer a combined jackpot. We collect a fee from our casino clients based upon their player's participation in the Inter-Casino Jackpot System. We believe these fees collected could become a significant portion of our overall revenues.

We have also identified other jurisdictions where we may have the ability to offer this program and have commenced seeking the requisite approvals.

Table of Contents

Sources of Revenue

We primarily derive our revenue from the licensing of our products and intellectual property. Consistent with our strategy, we generate revenue from negotiated recurring licensing fees for our table game content and the performance of our electronic table game platform. We also receive a one-time sale or reimbursement of our manufactured equipment. When we license a table game without electronic enhancements, we generally sell the associated products and negotiate a month-to-month license fee for the game content. When we license a table game with electronic enhancements, such as our Bonus Jackpot System, we generally sell the associated products, negotiate a month-to-month license fee for the game content, and collect an additional recurring fee associated with the performance of our system such as a fee per each wager placed.

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

We do not have plans to purchase significant physical plant or equipment during the next twelve months. As we continue to grow and expand our business, we will evaluate the necessary increases to our employee base over the course of the year.

Results of Operations for the Three Months Ended March 31, 2011

For the three months ended March 31, 2011 our continuing operations generated gross revenues of \$781,110, compared to gross revenues of \$754,027 for the three months ended March 31, 2010. We experienced increases in our recurring revenue from table game content and fees associated with the performance of our electronic game platform offset by a decline in sale or reimbursement of our manufactured equipment. The decrease in our installations of our Bonus Jackpot System resulted in a decrease of costs of ancillary products and assembled components from \$48,092 in the prior quarter to \$28,701 for the current quarter. Selling, general and administrative expenses for the quarter were \$735,699, compared to 2010 selling, general and administrative expenses of \$691,780. We experienced increases in payroll and related costs offset by a reduction in legal and regulatory costs and rent. Research and development expenses for the quarter were \$64,515, a decrease of approximately 30% over the first quarter 2010 research and development expenses of \$91,371. The decrease was primarily due to a reduction in payroll and related benefits. Other expenses decreased from \$22,292 in 2010 to \$18,330 in 2011 due to decreased interest expense.

Net loss from continuing operations for the three months ended March 31, 2011 was \$66,135, compared to a loss from continuing operations of \$99,508 for the three months ended March 31, 2010.

Table of Contents

Liquidity and Capital Resources

As of March 31, 2011, we had total current assets of \$1,054,368 and total assets in the amount of \$1,975,640. Our total current liabilities as of March 31, 2011 were \$659,006. Our working capital increased from \$249,222 at December 31, 2010 to \$395,362 at March 31, 2011. The increase in working capital was due to an increase in cash and inventory and a reduction in accounts payable and notes payable-related party.

At March 31, 2011, other than the commitment from the major shareholder of TableMAX to provide a line of credit specific to acquiring inventory for the Table MAX 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 the Company with loans or advances to support our operations or fund potential acquisitions.

Galaxy's operating activities used \$84,871 in cash for the three months ended March 31, 2011 compared to \$138,573 of cash used for the three months ended March 31, 2010. The primary components of our negative operating cash flow for the three months ended March 31, 2011 were net loss from operations of \$66,135, increases in inventory of \$19,387 and a decrease in accounts payable of \$53,727 offset by an increase in accrued expenses and taxes of \$53,125 and non cash charges consisting of depreciation and amortization expenses, \$12,356; provision for bad debts, \$9,000; and share based compensation, \$4,000.

Cash flows used in investing activities for the three months ended March 31, 2011 were \$1,067, consisting of \$3,707 in payments received on a note receivable and a decrease in other assets of \$906 offset by \$5,680 in acquisition of property and equipment. Cash generated by financing activities during the three months ended March 31, 2011 were \$110,012 consisting of proceeds from the sale of common stock in the amount of \$200,000, and payments received on stock subscription receivable totaling \$3,058 offset by \$65,783 in payments on notes payable-related party and \$27,264 in payments on notes payable.

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. 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 policies" 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4T. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2011. 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 March 31, 2011, our disclosure controls and procedures are effective.

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

Limitations on the Effectiveness of Internal Controls

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

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

(See Note 9 of Item 1 Financial Statements regarding current litigation)

Item 1A. Risk Factors

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

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

On February 24, 2011 the Company sold a total of 533,333 shares of common stock and 266,667 warrants for total cash proceeds of \$200,000. The offering and sale of the shares was exempt from registration under Rule 506 of Regulation D. The shares were offered exclusively to accredited and/or sophisticated investors and there was no general solicitation or advertising.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended March 31, 2011.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Description

Number 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

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities and 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: May 16, 2011

By: /s/ Robert Saucier
Robert Saucier
President, Chief
Executive Officer and
Director

Galaxy Gaming, Inc

Date: May 16, 2011

By: /s/ Andrew Zimmerman
Andrew Zimmerman
Chief Financial Officer,
Treasurer and Secretary