

Galaxy Gaming, Inc.  
Form 10-K  
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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

Commission file number : 000-30653

Galaxy Gaming, Inc.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)  
6767 Spencer Street,

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

Las Vegas, Nevada  
(Address of principal executive offices)  
Registrant's telephone number: 702-939-3254

89119  
(Zip Code)

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

Title of each class

none

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

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

Title of each class

Common Stock, par value \$0.001

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes  No

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's second fiscal quarter was \$2,396,834. Shares of common stock held by each officer and each person known to the registrant to own 10% or more of the outstanding voting securities of the registrant were excluded in that such persons may be deemed to be affiliates. This determination of affiliation status is not a determination for other purposes. The registrant has one class of securities, its common stock.

As of March 30, 2016 the registrant had 39,315,591 shares of common stock outstanding.



GALAXY GAMING, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	9
Item 2. <u>Properties</u>	9
Item 3. <u>Legal Proceedings</u>	10
Item 4. <u>Mine Safety Disclosures</u>	10
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
Item 6. <u>Selected Financial Data</u>	13
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 8. <u>Financial Statements and Supplementary Data</u>	18
Item 9. <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	41
Item 9A. <u>Controls and Procedures</u>	41
Item 9B. <u>Other Information</u>	41
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	42
Item 11. <u>Executive Compensation</u>	45
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	47
Item 14. <u>Principal Accountant Fees and Services</u>	48
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	49



Unless the context indicates otherwise, references to “Galaxy Gaming,” “we,” “us,” “our” or the “Company,” refer to Galaxy Gaming, Inc., a Nevada corporation, the company filing this report. Unless indicated otherwise, the terms and titles, “Chief Executive Officer,” “CEO,” “Chairman,” “Chairman of the Board” and “President” refers to Mr. Robert B. Saucier; “CFO,” “Chief Financial Officer,” “Secretary” and “Treasurer,” refers to Mr. Gary A. Vecchiarelli; and “Board” refers to the Company’s board of directors.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

## PART I

### ITEM 1. BUSINESS

#### BUSINESS

We are an established global gaming company specializing in the design, development, manufacturing, marketing and acquisition of proprietary casino table games and associated technology, platforms and systems for the casino gaming industry. 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's experience.

#### History and Development of Galaxy Gaming

In 1997, Galaxy Gaming's founder and President, Robert Saucier, was an investor in a small casino in Washington State. The casino had ten tables, primarily blackjack. During his tenure at this casino, Mr. Saucier invented a side bet for the casino game of blackjack known as Horseshoe Blackjack. The side bet became very popular and the casino's winnings from the games increased significantly. On October 7, 1997, Galaxy Gaming Corporation ("GGCORP") was formed and Mr. Saucier exchanged all of his rights, title and interest in his invention for stock in the corporation. Other Washington casinos recognized the popularity and profitability of this side bet and requested intellectual property licenses to offer the Horseshoe Blackjack side bet at their casinos. GGCORP modified the invention, changed its name to Lucky Ladies and filed for a method patent, which was later granted.

In 2002, the business and assets of GGCORP was acquired by Galaxy Gaming, LLC ("GGLLC"). Lucky Ladies remained GGLLC's only product until late 2002, when it debuted a new casino poker game called Texas Shootout. This game quickly became popular with casinos and their customers. GGLLC increased its sales force and expanded distribution into new jurisdictions. Subsequently, GGLLC grew methodically and intentionally by reinvesting earnings and introducing new products at a regular pace. Galaxy Gaming, Inc. ("GGINC") was formed in 2006 and in 2007, the assets and business operations of GGLLC were acquired by GGINC. In February 2009, GGINC executed a share exchange and reverse merger with Secured Diversified Investment, Ltd. ("SDI"). On September 1, 2009, the Company's Board of Directors approved a merger with the SDI's wholly-owned subsidiary, GGINC, pursuant to Nev. Rev. Stat 92A.180 ("Short Form Merger"). As part of the Short Form Merger, the Board authorized a change in the name of the company formerly known as SDI to "Galaxy Gaming, Inc.," which remains the operating company as of the date of this Report.

Casinos use our proprietary products to enhance their gaming floor operations and improve their profitability, productivity and security, as well as to offer popular cutting-edge gaming entertainment content and technology to their players. We market our products to land-based, riverboat, 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, Australia 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 about 600 casinos, which positions us as the second largest provider of proprietary table games in the world.

We group our products into four product categories 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 website, [www.galaxygaming.com](http://www.galaxygaming.com). Information found on the website 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 Bet games include Lucky Ladies, 21+3 and Bonus Craps. Premium Games are unique stand-alone Proprietary Table Games with their own unique set of rules and strategies. Examples of our Premium Games include High Card Flush, Three Card Poker and Texas Shootout. Generally, Premium Games generate higher revenue per table placement than the Side Bet games. Internally, we track revenue by each of our Proprietary Table Games. We do not internally track direct costs associated with the revenue of each of our proprietary casino games since it would require subjective allocations of common costs.

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

Enhanced Table Systems: Bonus Jackpot System. The Bonus Jackpot System facilitates a jackpot that 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 stagnant, adjustable or progressive style jackpot.



The Bonus Jackpot System is an advanced electronic system installed on gaming tables that is used to detect players' wagers, evaluate game play, determine dealer efficiency and to assist in calculating jackpots and bonusing offerings. The Bonus Jackpot System also includes an electronic display system used on gaming tables to display game information to the players known as TableVision. 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. 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 most current version of the Bonus Jackpot System as of the date of this Report is the Andromeda 4, which allows for sensors for up to 16 player positions and up to 6 sensors per player position (maximum total of 96 data gathering points). Sensors can be placed discreetly under the felt or be an enhanced sensor with a multi-colored LED light. The enhanced sensors increase security and reliability while providing the player with a positive indication a wager has been recorded. Another feature of our Bonus Jackpot system is the ability to keep track of and display more than one jackpot. This ability, combined with the expansion of multiple sensors, permits us to offer a unique bonusing system called "MEGA-Share" to our casino clients.

**Enhanced Table Systems: Inter-Casino Jackpot System.** We leverage the abilities of our Bonus Jackpot System to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network. This methodology has long been practiced in the slot machine industry beginning with the introduction of IGT's Megabucks in the 1990's. These systems are referred to as "wide area progressives" and nearly every major slot machine manufacturer has a wide area progressive system. We developed our version of a wide area progressive jackpot system for table games that we call the Inter-Casino Jackpot System. We receive compensation by collecting a transaction fee from our casino clients either based upon their players' participation in the Inter-Casino Jackpot System or a flat monthly fee.

**Enhanced Table Systems: MEGA-Share.** MEGA-Share is a game-play methodology invented by us that allows a player of one of our table games to share in the winnings of a jackpot together with other players. An example of this concept would be when multiple table game players are playing in a casino. When one player obtains a winning hand entitling him or her to a jackpot, the event also triggers a second MEGA-Share jackpot that is divided among all players who made a MEGA-Share qualified wager. MEGA-Share rewards the other players playing on other tables, other games, or even other casinos with a share of the MEGA-Share jackpot, provided that they placed a qualifying MEGA-Share wager. We believe the Bonus Jackpot System and MEGA-Share may offer casinos an opportunity to significantly increase player interest, thereby increasing casino revenues and generating increased recurring revenue for us.

**e-Tables.** In 2011, we licensed the worldwide rights (excluding Oklahoma, Kentucky and the Caribbean) to the TableMAX e-Table system. Simultaneously we obtained e-Table rights to the casino table games Caribbean Stud, Caribbean Draw, Progressive Blackjack, Texas Hold'em Bonus and Blackjack Bullets. A description of this agreement is contained in Note 17 of our audited financial statements included in Item 8. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms allow us to offer our table game content in markets where live table games are not permitted. 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.

**Ancillary Equipment.** In 2014, we licensed the worldwide rights to a patented technology that detects invisible card markings. In recent years, there has been a significant increase in the number of businesses that offer tools that allow individuals to cheat casinos and card rooms. These businesses, typically located in China or Eastern Europe, are booming due to the significant revenues they are deriving from sales of cheating products all around the world. These products typically include daubs or inks that can be used by players to mark cards. The markings can only be seen by using discrete technology, special glasses or contact lenses. If a player is able to recognize any face down cards on the

table or next card to be dealt, the player can obtain a significant edge resulting in an unfair game and potential significant losses to casinos or other players. Upon licensing, we further refined and developed the technology which has been branded as SpectrumVision. The SpectrumVision technology utilizes 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 has the ability to see such marking using the entire spectrum of ultra-violet, infrared and natural light. Units of SpectrumVision began shipping in 2015.

Our revenues consist primarily of recurring royalties received from our clients for the licensing of our game content and other products. Typically over 95% of our total revenues are recurring. In 2015, recurring revenues represented 99% of our total revenues. These recurring revenues generally have few direct costs thereby generating high gross profit margins in excess of 90%. In lieu of reporting as “gross profit,” this amount would be comparable to “revenues less cost of ancillary products and assembled components” on our financial statements. Additionally, we receive non-recurring revenue as reimbursement from the sale of associated products.

A significant portion of our business is conducted with four large clients who operate numerous casinos throughout North America and the United Kingdom. Aggregated revenues from these significant clients accounted for approximately 33.6% of revenues in 2015 and 2014.

For more information about our revenues, operating income and assets, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” included in this Form 10-K.

## STRATEGY

We believe that entertaining casino games will enhance players’ experiences and generate brand loyalty, resulting in increased profits for our casino clients. We continue to expand our product offering by focusing on innovative products and services. As we continue to develop and enhance our brand names and reputation, we anticipate expanding to new product lines that complement our overall strategy and enhance our market presence.

Our long-term business strategy is designed to enhance client value by producing products that players enjoy playing. We believe that we will enhance shareholder value by capitalizing on existing and emerging markets and the worldwide proliferation of gaming and continuing to build our recurring revenues. To achieve both of these objectives, we employ the following strategies:

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

Expand our inventory of products and technologies to attain a fully comprehensive portfolio. Historically, only one company in the table game industry, Scientific Games, Inc. (formerly SHFL Entertainment, Inc.) (“Scientific Games”), has had the ability to offer casinos nearly all of the table game products they require. Scientific Game’s 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. We continuously develop and/or seek to acquire new proprietary table games to complement our existing offerings and to extend our penetration of proprietary table games on the casino floor. We expect to accomplish this strategic shift through internal development of products as well as continued acquisitions from others.

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

In addition, we are constantly seeking to acquire marketable products developed by others. Since 2010, we have made a number of successful asset acquisitions. In October 2011, we acquired over 20 different table games, including 21+3, Two-way Hold’em and Three Card Poker from Prime Table Games. The Prime Table Games intellectual property portfolio included 47 patents and patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. Since 2011, we have developed the intellectual property into products such as World Poker Tour® Heads Up Hold’em, Four Card Frenzy, Three Card Prime, Cajun Stud and Commission Free Emperor’s Challenge. Those games are currently played on approximately 2,200 tables in over 250 casinos in the world. In November 2011, we acquired the table games Bonus Craps, Four The Money, Rainbow Poker and Roulette Craps together with nine patents, various trademarks and an assignment of existing licensing agreements with various casinos throughout the United States from Lakes Entertainment, Inc. In March 2012, we acquired Double Action Blackjack as a result of a settlement with Unax Service, LLC. In September 2012, we acquired High Card Flush from Red Card Gaming, Inc., which had earned two gaming industry awards: the 2012 Casino Journal’s “Best New Table

Game,” as voted on by casino table game managers and “Best Traditional Table Game” as awarded by Casino Enterprise Management Magazine. Please also see “Item 3 Legal Proceedings” with respect to enforcement of our Rights against Red Card Gaming, Inc. and AGS, LLC. In 2014, we acquired Lucky Win Baccarat to enhance our Baccarat game portfolio, and exclusive rights to proprietary technology used to develop SpectrumVision, our card marking detection system. In March 2015, we licensed exclusive rights to a side-bet for roulette which we have branded as TRIO-lette.

We anticipate the continued acquisition and/or development of additional new proprietary table games and associated intellectual property. When combined with our existing portfolio, new proprietary games will give us the comprehensive spectrum of products 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 placements using one or more of our Enhanced Table Systems and to convert our existing Proprietary Table Game placements that currently do not incorporate our Enhanced Table Systems. We have modified most of our Premium Table Games and many of our Side Bets to benefit from the economics this new system affords us. In the future, we intend to be able to offer this platform for all games.

Additionally, we expect that most or all of our new Proprietary Table Games will facilitate the Bonus Jackpot System component. The technology developed with the Bonus Jackpot System has allowed us to offer not only bonus jackpots and progressive jackpots, but also provides us the infrastructure to offer our Inter-Casino Jackpot System and MEGA-Share.

MEGA-Share and our Inter-Casino Jackpot System are unrelated but can be combined if so desired by our clients. A casino could operate either or both simultaneously.

Grow our e-Table business. Our TableMAX product line is developed for us by TableMAX Corporation. Having installed the majority of TableMAX e-Tables we received from TableMax Corporation, we are awaiting the next major release of the TableMAX e-Table, referred to as the "Model E." In 2013, we were informed by TableMAX Corporation that the Model E's development was completed. We have acquired the requisite approvals for the Model E in 2013 and began offering this product to gaming operators in late 2014.

Expand our ancillary product revenues. The new SpectrumVision product is the result of an exclusive license we obtained in 2014. A prototype of SpectrumVision was showcased in our booth at G2E in September 2014 and the World Game Protection Conference in March 2015, where it received significant interest from table game operators and surveillance managers around the world. We expect SpectrumVision will be a product that every casino & card room operator will need as a deterrent and surveillance tool. In addition to industry utilizing the product, we expect gaming regulators to use the device to assist in suspected cheating investigations. Since obtaining the exclusive license, we have employed an outsourcing strategy to design and manufacture a final SpectrumVision product, which we began shipping in 2015.

## COMPETITION

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

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

With respect to our Enhanced Table Systems, we compete primarily with Scientific Games, DEQ Systems and TCS/John Huxley. Scientific Games has a progressive jackpot system it uses with its proprietary table games. DEQ Systems, which has limited game content, often uses its platform with other companies' games including ours and those of Scientific Games. TCS/John Huxley has introduced a bonusing platform available for public domain games, and has limited game content.

With respect to our e-Table system, there are numerous other companies that manufacture and/or sell e-Tables that are similar. These companies include, but are not limited to, TCS/John Huxley, Aristocrat, Interblock, Aruze Gaming Corporation, Novomatic Industries, Multimedia Games and Scientific Games. Our e-Tables, as well as those of other companies, also compete for casino floor space with live table games and slots. One of our competitive strengths in

this segment is the ability to offer our proprietary table game titles on e-Table platforms.

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

We believe we have competitive advantages resulting from broad alliances and lengthy business relationships with our clients and an extensive intellectual property portfolio. Our historically high levels of customer service and support, worldwide name and brand recognition and geographic diversity are also competitive assets. We believe our reputation for consistently delivering and supporting quality products will encourage operators to select our products and enable us to maintain and create a substantial market position.

## MANUFACTURING AND SUPPLIERS

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

## RESEARCH AND DEVELOPMENT

While we are committed to growing the sales of our marketed products, we strive to maintain a robust pipeline of products under development to bring to market. We employ a staff of electrical, mechanical and software engineers, graphic artists and game developers to support, improve and upgrade our products and to develop and explore other potential table game products. We perform our research and development ourselves at our corporate offices. We also expect to use contracted third party developers to conduct research and development for certain product offerings.

We believe that one of our strengths is identifying new product opportunities and developing new products. Therefore we expect to continue to spend a significant portion of our annual revenues on research and development, including the acquisition of intellectual property and technology from third parties. We have incurred approximately \$455,000 and \$473,000 in research and development expenditures during 2015 and 2014, respectively. Consistent with our increased focus on development of new products, we anticipate significant increased research and development expenditures in 2016 and future years.

## INTELLECTUAL PROPERTY

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

We have been and are subject to litigation claiming that we have infringed the rights of others and/or that certain of our patents and other intellectual property are invalid or unenforceable. We have also brought actions against others to protect our rights. A description of certain of these matters is contained in Note 12 of our audited financial statements, included in Item 8 and incorporated herein by this reference.

## GOVERNMENT REGULATION

We are subject to regulation by governmental authorities in most jurisdictions in which we offer our products. The manufacturing and distribution of casino games, gaming equipment, systems technology, and related services, as well as the operation of casinos, are all subject to regulation by a variety of federal, state, international, tribal, and local agencies with the majority of oversight provided by individual state gaming control boards. While the regulatory requirements vary by jurisdiction, most require:

- Findings of suitability for the company, individual officers, directors, key employees and major shareholders;
- Documentation of qualification, including evidence of financial stability;
- Specific product approvals for gaming equipment manufacturers; and
- Licenses, registrations and/or permits.

Gaming regulatory requirements vary from jurisdiction to jurisdiction, and obtaining licenses, registrations, findings of suitability for our officers, directors, and principal stockholders and other required approvals with respect to us, our personnel and our products are time consuming and expensive. Generally, gaming regulatory authorities have broad discretionary powers and may deny applications for or revoke approvals on any basis they deem reasonable. We have approvals that enable us to conduct our business in numerous jurisdictions, subject in each case to the conditions of the particular approvals. These conditions may include limitations as to the type of game or product we may sell or lease, as well as limitations on the type of facility, such as riverboats, and the territory within which we may operate, such as tribal nations. We have authorizations with certain Native American tribes throughout the United States which have compacts with the states in which their tribal dominions are located or operate or propose to operate casinos. These tribes generally require suppliers of gaming and gaming-related equipment to obtain authorizations.

The nature of the industry and our worldwide operations make this process very time consuming and require extensive resources. We engage legal resources familiar with local customs in certain jurisdictions to assist in keeping us compliant with applicable regulations



worldwide. Through this process, we seek to assure both regulators and investors that all our operations maintain the highest levels of integrity and avoid any appearance of impropriety.

Gaming laws and regulations serve to protect the public interest and ensure gambling related activity is conducted honestly, competitively, and free of corruption. Regulatory oversight additionally ensures that the local authorities receive the appropriate amount of gaming tax revenues. As such, our financial systems and reporting functions must demonstrate high levels of detail and integrity.

We have obtained or applied for all required government licenses, permits, registrations, findings of suitability, and approvals necessary to manufacture and distribute gaming products in all jurisdictions where we directly operate. Although many regulations at each level are similar or overlapping, we must satisfy all conditions individually for each jurisdiction. We have never been denied a gaming related license, nor have our licenses ever been suspended or revoked.

Gaming jurisdictions. Gaming jurisdictions that have legalized gaming typically require various licenses, registrations, findings of suitability, permits, and approvals of manufacturers and distributors of gaming devices and equipment as well as licensure provisions related to changes in control. In general, such requirements involve restrictions and approvals. Additionally, we license and/or lease our products through licensed distributors. We offer our products throughout most of the United States, Canada, Caribbean, South Africa, United Kingdom and selected parts of Europe.

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

Application of future or additional regulatory requirements. In the future we intend to seek the necessary registrations, licenses, approvals, and findings of suitability for us, our products, and our personnel in other jurisdictions throughout the world. However, we may be unable to obtain such necessary items, or if such items are obtained, may be revoked, suspended, or conditioned. In addition, we may be unable to obtain on a timely basis, or to obtain at all, the necessary approvals of our future products as they are developed, even in those jurisdictions in which we already have existing products licensed or approved. If the necessary regulations are not sought after or the required approvals not received, we may be prohibited from selling our products in that jurisdiction or may be required to sell our products through other licensed entities at a reduced profit.

## EMPLOYEES

We have seventeen full-time employees, including executive officers, management personnel, accounting personnel, office staff, sales staff, service technicians and research and development personnel. We employ four part-time employees. Our employees are co-employed by Advanstaff, Inc. a professional employer organization engaged by us to provide payroll and human resource services. As needed from time to time, we also pay for the services of independent contractors.

ITEM 1A. RISK FACTORS.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own any real property used in the operation of our current business. We maintain our corporate office at 6767 Spencer Street, Las Vegas, Nevada. We currently pay rent to an unrelated party pursuant to a lease entered into effective in 2014 with a current monthly rental payment of approximately \$18,000. We currently occupy approximately 24,000 square feet of combined office and warehouse space. See Note 12 to our audited financial statements, included in Item 8, for further details.

### ITEM 3. LEGAL PROCEEDINGS

We have been named in and have brought lawsuits in the normal course of business. A description of these matters is contained in Note 12 to our audited financial statements which are included in Item 8 and incorporated herein by this reference.

**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 or defendant that are complex in nature and have outcomes that are difficult to predict. 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.

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

In August 2013, GGCA and our CEO filed a motion for writ of mandate with the Sacramento County Superior Court, asking the Court for a judicial review of the California Commission’s ruling. A hearing on the motion was originally scheduled for October 2015 and has been rescheduled to July 2016. Subsequently, in September 2013, we were notified that until this matter was deemed resolved, we were not permitted to conduct business with tribal casinos in California.

In July 2014, we filed an application with the California Bureau of Gambling Control for a finding of suitability. As of the date of this Report, that application was in process.

**In Bet Litigation.** In November 2014, we filed a complaint for patent infringement against In Bet Gaming, Inc. and In Bet, LLC, alleging that their “In-Between” side bet game infringes on one or more of our patents. The litigation is currently pending.

**Red Card Gaming & AGS Litigation.** In September 2012, we executed an asset purchase agreement (“APA”) with Red Card Gaming, Inc. (“RCG”), for the purchase of all the rights, title and interest in and for the game known as High Card Flush and all associated intellectual property. The APA included customary non-compete, non-disparagement and right of first refusal provisions. In 2014, AGS, LLC (“AGS”) purchased RCG’s rights in the APA and became the assignee of the APA. In September 2014 we notified RCG of their material breach of the APA and discontinued contingent consideration payments. In November 2014, RCG and AGS attempted to terminate the APA and in December 2014, began selling their own High Card Flush game and filed a complaint against us alleging 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.

In February 2016, we received notice the arbitration panel (the “Panel”) 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. Additional briefing on the matter, relating to questions about the amount of attorneys’ fees to be awarded to Galaxy, has been requested from the Panel. After reviewing the briefs, the Panel will either rule on the

briefs or will schedule oral argument. Based on the Interim Award, we believe the final award to be issued by the Panel will not contain a material adverse effect to us.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the OTCQB marketplace ("OTCQB"), which has a higher standard than the OTC Bulletin Board exchange we traded on in previous years. The OTCQB has superior standards which are designed to improve marketplace integrity and enhance transparency for investors. Our ticker symbol trades under the symbol GLXZ.

The following table sets forth the range of high and low closing sale prices for our common stock for each of the periods indicated as reported by the OTCQB.

Quarter Ended	2015		2014	
	High (\$)	Low (\$)	High (\$)	Low (\$)
March 31,	0.39	0.28	0.39	0.21
June 30,	0.30	0.16	0.50	0.33
September 30,	0.30	0.16	0.43	0.35
December 31,	0.27	0.17	0.49	0.34

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written

agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

#### HOLDERS OF OUR COMMON STOCK

As of March 30, 2016, we had 39,315,591 shares of our common stock issued and outstanding, held by approximately 375 shareholders.

#### DIVIDEND POLICY

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where after giving effect to the distribution of the dividend:

- We would not be able to pay our debts as they become due in the usual course of business; or
    - Our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution
- We have not declared any dividends and we do not plan to declare any dividends in the foreseeable future.

## TRANSFER AGENT

Our stock transfer agent and registrar is Colonial Stock Transfer Company, Inc. located at 66 Exchange Place, 1<sup>st</sup> Floor, Salt Lake City, UT 84111. Their telephone number is (801) 355-5740.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

We have not yet adopted any formal equity compensation plans. In anticipation of establishing an equity compensation plan we have taken the following actions:

- As condition of his 2012 employment agreement, our Board granted options to Gary A. Vecchiarelli, our CFO to purchase 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the trading day prior to the grant date (\$0.25). Such options vested over a three year period through June 30, 2015. None of the options have been exercised to date.
- As condition of a consulting agreement effective February 13, 2014, an independent contractor (the “Contractor”) was granted 150,000 shares of the Company’s restricted common stock. Of this amount, 75,000 vested and transferred immediately, with the remaining 75,000 vesting in equal installments through (and transferring on) January 1, 2015. Additionally, the Contractor will also receive options to purchase 37,500 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the applicable quarter. The Contractor holds a total of 281,250 vested options, none of which have been exercised to date.
- As condition of his Board of Directors Director Service Agreement, effective March 1, 2014, Norm DesRosiers, Director, was granted a restricted stock award of 100,000 shares of the Company’s common stock. The restricted stock award vested immediately. Mr. DesRosiers will also receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the applicable quarter. Mr. DesRosiers holds a total of 183,333 vested options, none of which have been exercised to date.
- As condition of his Board of Directors Director Service Agreement, effective May 1, 2014, William Zender, Director, was granted a restricted stock award of 75,000 shares of the Company’s common stock. The restricted stock award vested immediately. Mr. Zender will also receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the applicable quarter. Mr. Zender holds a total of 175,000 vested options, none of which have been exercised to date.
  - On December 29, 2014, our Board agreed to a bonus which granted an aggregate 355,000 shares of common stock to several different employees in varying amounts based on performance. Of this amount, 100,000 shares were issued to Gary A. Vecchiarelli, our CFO. All shares granted on this date were vested immediately.
- On February 15, 2015, the Company granted options to an employee to purchase 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the trading day prior to the grant date (\$0.34). Such options will vest over three years as follows: 33% on the first anniversary (February 15, 2016) and the remainder in equal monthly installments for the remaining 24 months.
- As condition of his Board of Directors Director Service Agreement, effective April 1, 2015, Bryan W. Waters, Director, was granted a restricted stock award of 75,000 shares of the Company’s common stock. The restricted stock award will vest immediately. Mr. Waters will also receive options to purchase 25,000 shares of common stock, granted quarterly and vesting immediately, with a strike price equal to the closing price on the last day of the applicable quarter. Mr. Waters holds a total of 75,000 vested options, none of which have been exercised to date.
- 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.

## RECENT SALES OF UNREGISTERED SECURITIES

Effective April 1, 2015, Mr. Bryan Waters agreed to serve as a member of our Board of Directors. In connection with his appointment, Mr. Waters was granted a restricted stock award, covering 75,000 shares of our common stock. The restricted stock award vested immediately. We will also provide annual cash compensation of \$30,000 to be paid in quarterly installments on the last day of each quarter. Mr. Waters will receive options to purchase 25,000 shares of common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. Exercise life of options shall be five years from the date of grant or ninety days from date of separation, whichever is less.

On November 14, 2015, we entered into an employment agreement with our Chief Financial Officer, Gary A. Vecchiarelli. As a condition of his employment agreement, Mr. Vecchiarelli was granted 150,000 shares of our restricted common stock which vests in increments of 25,000 shares beginning June 30, 2016 and every six month anniversary thereafter, with all shares vesting on December 31, 2018. Mr. Vecchiarelli's employment agreement also allows him to utilize up to 50% of his annual bonus to purchase the Company's common stock at a 50% discount.



## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

On February 28, 2016, Mr. Vecchiarelli elected to use \$9,000 of his annual 2015 bonus to purchase 100,000 shares of the Company's common stock. All shares purchased on this date were vested immediately.

In each of the transactions listed above, the securities were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, (the "Securities Act") and rules and regulations promulgated thereunder. None of the transactions involved a public offering.

### ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data. We derived the selected statements of operations data for the years ended December 31, 2015 and 2014, and balance sheet data as of December 31, 2015 and 2014, from our audited financial statements and notes thereto that are included elsewhere in this annual report. We derived the selected statements of operations data and balance sheet data for the years ended December 31, 2013, 2012 and 2011, from our audited financial statements that do not appear in this annual report.

You should read the following financial information together with the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this annual report. The information set forth below is not necessarily indicative of our future financial condition or results of operations.

	Years ended December 31,				
	2015	2014 <sup>(1)</sup>	2013 <sup>(2)</sup>	2012	2011 <sup>(3)</sup>
<b>Statement of Operations Data:</b>					
Total revenues	\$ 10,951,670	\$ 9,845,108	\$ 8,218,598	\$ 7,222,550	\$ 3,684,865
Net (loss) income	187,854	21,888	563,317	621,726	(473,336 )
Adjusted EBITDA <sup>(4)</sup>	3,267,119	3,754,851	3,434,215	2,847,459	147,212
<b>Statement of Cash Flows Data:</b>					
Net cash provided by (used in) operating activities	\$ 3,281,087	\$ 3,224,973	\$ 2,375,798	\$ 2,140,911	\$(273,425 )
Net cash used in investing activities	(45,638 )	(111,716 )	(17,690 )	(62,204 )	(10,175 )
Net cash (used in) provided by financing activities	(3,213,732 )	(2,977,932 )	(2,323,599 )	(1,402,484 )	22,073
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 570,623	\$ 560,184	\$ 438,502	\$ 398,424	\$ 182,907
Current assets	3,060,695	2,947,642	2,385,009	2,290,724	1,448,272
Total assets	17,971,048	19,492,083	21,227,355	22,404,946	23,115,411
Current liabilities	7,954,017	5,366,588	4,302,173	3,562,098	3,061,780
Total liabilities	15,520,839	17,616,501	19,948,112	21,812,962	22,775,599
Shareholders' equity	2,450,209	1,875,582	1,279,243	591,984	339,812

(1) In 2014, we recorded a \$528,233 impairment charge to reduce the carrying value of intangible assets to their estimated fair value.

(2) In 2013, we recorded a \$150,000 impairment charge to reduce the carrying value of intangible assets to their estimated fair value.

(3) In 2011, we made a significant acquisition of assets from Prime Table Game, LLC and Prime Table Games UK. The allocation of the total purchase price to the net assets acquired is as follows:

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

We transferred the following consideration for the net assets acquired:

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

(4) In addition to disclosing financial results prepared in accordance with U.S. GAAP, we disclose information regarding Adjusted EBITDA. Adjusted EBITDA includes adjusting net income/(loss) to exclude interest, taxes, depreciation, amortization and share based compensation. Adjusted EBITDA is not a measure of performance defined in accordance with U.S. GAAP. However, Adjusted EBITDA is used by management to evaluate our operating performance. Management believes that disclosure of the Adjusted EBITDA metric offers investors, regulators and other stakeholders a view of our operations in the same manner management evaluates its performance. When combined with U.S. GAAP results, management believes Adjusted EBITDA provides a comprehensive understanding of our financial results. Adjusted EBITDA should not be considered as an alternative to net income/(loss) or to net cash provided by/(used in) operating activities as a measure of operating results or of liquidity. It may not be comparable to similarly titled measures used by other companies, and it excludes financial information that some may consider important in evaluating our performance. A reconciliation of U.S. GAAP net income/(loss) from operations to Adjusted EBITDA is as follows:

Adjusted EBITDA Reconciliation:	Years ended December 31,				
	2015	2014	2013	2012	2011
Net income (loss)	\$ 187,854	\$ 21,888	\$ 563,317	\$ 621,726	\$ (473,336)
Interest income	(13,337 )	(23,478 )	(23,259 )	(21,600 )	(24,821 )
Interest expense	1,047,434	1,093,264	1,034,118	882,547	142,002
Income tax provision	251,629	139,745	69,767	(341,823 )	—
Depreciation	178,850	109,809	45,562	50,488	40,149
Amortization	1,495,012	1,561,631	1,588,905	1,564,969	435,218
Impairment of intangible assets	—	528,233	150,000	—	—
Share based compensation expense	119,677	323,759	5,805	91,152	28,000
Adjusted EBITDA	\$ 3,267,119	\$ 3,754,851	\$ 3,434,215	\$ 2,847,459	\$ 147,212

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources as of December 31, 2015 and 2014 and for the years ended December 31, 2015 and 2014. This discussion should be read together with our audited consolidated financial statements and related notes included in Item 8. Financial Statements and Supplementary Data. Some of the information contained in this discussion includes forward-looking statements that involve risks and uncertainties; therefore our "Special Note Regarding Forward-Looking Statements" should be reviewed for a discussion of important factors that could cause actual results to differ materially from the results described in, or implied by, such forward-looking statements.

### OVERVIEW

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

Plan of operation.

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

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 about 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 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](http://www.galaxygaming.com). Information found on the web site should not be considered part of this report.

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

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

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

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

MEGA-Share is a game play methodology invented by us that allows a player of one of our table games to share in the winnings of a jackpot together with other players. An example of this concept would be when multiple table game

players are playing in a casino and one player obtains a winning hand entitling them to a jackpot, the event also triggers a second MEGA-Share jackpot that is divided among all players who placed a MEGA-Share qualifying wager. MEGA-Share rewards other players playing on other tables, other games, or even in other casinos with a share of a second jackpot simply for having a wager placed at the time another player won the main jackpot.

e-Tables. In February 2011, we entered into a definitive agreement to license the worldwide rights, excluding Oklahoma, Kentucky and the Caribbean, to the TableMAX e-Table system and simultaneously obtained the e-Table rights to the casino table games Caribbean Stud, Caribbean Draw, Progressive Blackjack, Texas Hold'em Bonus and Blackjack Bullets. See Note 16. The TableMAX e-Table system is a fully automated, multi-player electronic table game platform which does not need a human dealer. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. The e-Table product enables automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability. As of December 2015, the TableMAX system offers several of our Proprietary Side Bets including Lucky Ladies and 21+3, and Premium Games Three Card Prime and World Poker Tour Heads Up Hold'em.

Ancillary Equipment. In mid-2014, we entered into an exclusive licensing agreement with an independent inventor for worldwide rights to a proprietary technology which detects card markings. With this technology, we developed SpectrumVision, one unit which can detect most known card markings normally invisible to the naked eye. SpectrumVision will be leased for a monthly fee or one-time purchase price. We began shipping the first units in 2015.

Strategy. We believe that entertaining casino games will enhance players' experiences and generate brand loyalty, resulting in increased profits for our casino clients. We continue to expand our product offering by focusing on innovative products and services. As we continue to develop and enhance our brand names and reputation, we anticipate expanding to new product lines that complement our overall strategy and enhance our market presence.

Our long-term business strategy is designed to enhance client value by producing products players enjoy playing. We believe that we will enhance shareholder value by capitalizing on existing and emerging markets and the worldwide proliferation of gaming and continue to build our recurring revenues. To achieve both of these objectives, we employ the following strategies:

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

These strategies are discussed in more detail above in the section entitled "Business."

Results of operations for the years ended December 31, 2015 and 2014. For the year ended December 31, 2015 our gross revenues increased \$1,106,562 or 11% to \$10,951,670, as compared to \$9,845,108 in 2014. The increase was due primarily to the performance of the Prime Table Game assets added to our portfolio in October 2011, entrance into new markets and territories and the focus on Premium Games, which command a higher price point per unit. Our gross revenues include \$10,915,410 or 99.7% of total revenues, which were derived from recurring product leases and royalties in 2015, compared to \$9,835,345 or 99.9% in 2014. We consider our revenues from product leases and royalties to be our recurring revenues, and expect such revenues to provide the majority of our income going forward.

Additionally, the sale or reimbursement of our products and manufactured equipment increased \$26,497 or 271% to \$36,260 in 2015 from \$9,763 in 2014. Our cost of ancillary products and assembled components increased \$15,405 or 19% to \$95,930 in 2015 from \$80,525 in 2014. The majority of this increase was due to an increase in sales of tangible goods such as table signs. In 2015, there is a disproportionate relationship between revenues from product sales and service and the cost of ancillary products and assembled components because we offered promotions whereby we offered free table signs with executed licenses of certain premium games.

Selling, general and administrative expenses increased \$1,596,516 or 29% to \$7,133,681 in 2015 compared to \$5,537,165 in 2014. The increase was primarily due to increased sales related expenses including sales commissions, payroll, travel and trade shows, increases in regulatory costs associated with product approvals and gaming licenses in new jurisdictions; increased costs of intellectual property and increases in legal expenses associated with ongoing legal proceedings. Research and development expenses decreased \$17,627 or 4% to \$454,940 in 2015 compared to \$472,567 in 2014. Research and development costs remained consistent as we utilized outsourced contractors for specific research and development activities in lieu of retaining full-time employees.

In 2014 we recognized a \$528,233 impairment charge to reduce the carrying value of certain intangible assets to its estimated fair value. These intangibles were part of the acquisition with Prime Table Games in 2011. As of December 2014, we determined that several patents had limited scope and were not commercially feasible given the ongoing maintenance costs related with such patents.

Total interest expense decreased \$45,830 or 4% to \$1,047,434 for 2015, compared to \$1,093,264 in 2014. The decrease in interest expense is due to the contractual interest rate increase in payments related to the Prime Table Games acquisition.

Income before taxes increased \$277,850 or 172% to \$439,483 in 2015, compared to \$161,633 in 2014. This is attributable to the increases in total revenues and the reduction in impairment of intangible assets, which occurred in 2014. As a result, our net income increased to \$187,854 in 2015 compared to \$21,888 in 2014. The tax expense of \$251,629 during 2015 was the result of tax on current year income. This compared to a tax expense of \$139,745 during 2014, which was also the result of tax on the respective year's income.

Liquidity and capital resources. Until 2013, we incurred net losses for all annual periods since inception. We have typically funded our operating costs, research and development activities, working capital investments and capital expenditures associated with our growth strategy with proceeds from the sales and issuances of our common stock and other financing arrangements. We expect our revenues and earnings to increase in future periods, and we expect to reinvest these earnings in additional inventory and working capital to fund anticipated growth in our recurring revenue business.



## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

As of December 31, 2015 we had total current assets of \$3,060,695 and total assets of \$17,971,048. Our total current liabilities as of December 31, 2015 were \$7,954,017 and total liabilities were \$15,520,839. Of our current assets, we had \$570,623 in cash and equivalents as of December 31, 2015. We had restricted cash of \$97,859 related to jackpot liabilities, which are restricted by regulatory guidelines and may not be used for operations. The corresponding jackpot liability of \$106,671 has been recorded in current liabilities. The difference of \$8,812 represents December's outstanding client billing related to the player funded portion of the jackpot.

Our operating activities provided \$3,281,087 in cash for the year ended December 31, 2015, compared to \$3,224,973 for the year ended December 31, 2014. The primary components of our positive operating cash flow for the year ended December 31, 2015, were due to the increases in accounts payable and accrued expenses for tax planning items which occurred close to year-end. The growth in the deferred revenue account represents our continued overall revenue growth.

Additionally, investing activities used cash of \$45,638 for the year ended December 31, 2015, compared to \$111,716 for the year ended December 31, 2014. In both years, these amounts are primarily due to the acquisition of property and equipment. In 2014, we also acquired intangible assets of \$35,000.

Cash used in financing activities during the year ended December 31, 2015, was \$3,213,732 compared to \$2,977,932 for the year ended December 31, 2014. In both years, these amounts relate to debt principal payments on the Prime Table Games asset acquisition.

We intend to fund our continuing operations through increased sales and ongoing operations. Additionally, the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements.

In 2015, we granted 150,000 shares of restricted stock to our Chief Financial Officer, Gary A. Vecchiarelli at a fair value of \$0.20 per share pursuant to this November 2015 employment agreement. During 2015, we also appointed a new member to the Board of Directors and issued a total of 75,000 shares of restricted common stock at a value of \$0.27. In 2014, we granted a small group of employees an aggregate of 255,000 shares of restricted common stock at a fair value of \$0.40 per share. Additionally, we granted 100,000 shares of restricted common stock to our Chief Financial Officer, Gary A. Vecchiarelli, at a fair value of \$0.40 per share. During 2014, we also appointed two new members to the Board of Directors and issued a total of 175,000 shares of restricted common stock at fair values of \$0.28 and \$0.47. We did not receive any proceeds from these grants. The grants have been recorded as share-based compensation expense and are included on the statement of operations.

Despite our prior successful funding efforts, there can be no assurance that we will be successful in raising additional funding, if required. If we are not able to secure additional funding, the implementation of our business plan may be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. We will 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.

Off balance sheet arrangements. As of December 31, 2015, there were no off balance sheet arrangements.

Significant equipment. While we anticipate additional purchases of furniture and equipment in conjunction with our recent move into a new headquarters, we do not anticipate such purchases to be significant.

Accounting for income taxes. We are subject to income taxes in both the United States and in certain non-U.S. jurisdictions. We estimate our current tax position together with our future tax consequences attributable to temporary differences resulting from differing treatment of items, such as depreciation, amortization, and other reserves for tax

and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred assets will be recovered from future taxable income, prior year carryback, or future reversals of existing taxable temporary differences. To the extent we believe that recovery is not more likely than not, we establish a valuation allowance against these deferred tax assets. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firms</u>	19
<u>Balance Sheets as of December 31, 2015 and 2014</u>	20
<u>Statements of Operations for the years ended December 31, 2015 and 2014</u>	21
<u>Statements of Comprehensive Income for the years ended December 31, 2015 and 2014</u>	22
<u>Statement of Changes in Stockholders' Equity as of December 31, 2015</u>	23
<u>Statements of Cash Flows for the years ended December 31, 2015 and 2014</u>	24
<u>Notes to Financial Statements</u>	25

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Galaxy Gaming, Inc.

We have audited the accompanying balance sheets of Galaxy Gaming, Inc. as of December 31, 2015 and 2014 and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the years ended December 31, 2015 and 2014. Galaxy Gaming, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galaxy Gaming, Inc. as of December 31, 2015 and 2014, the results of its operations, and its cash flows, for the year ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ KLJ & Associates, LLP

KLJ & Associates, LLP  
Edina, MN  
March 30, 2016

## GALAXY GAMING, INC.

## BALANCE SHEETS

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$570,623	\$560,184
Restricted cash	97,859	107,913
Accounts receivables, net allowance for bad debts of \$30,944 and \$34,887	1,828,669	1,472,743
Prepaid expenses	106,338	80,440
Inventory	411,700	232,789
Note receivable - related party, current portion	—	383,298
Deferred tax asset	43,017	47,691
Other current assets	2,489	62,584
Total current assets	3,060,695	2,947,642
Property and equipment, net	298,877	382,098
Products leased and held for lease, net	134,485	125,665
Intangible assets, net	13,261,636	14,756,648
Goodwill	1,091,000	1,091,000
Deferred tax assets, net of current portion	82,562	143,614
Other assets, net	41,793	45,416
Total assets	\$17,971,048	\$19,492,083
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,421,848	\$518,428
Accrued expenses	823,964	519,166
Income taxes payable	170,331	22,872
Deferred revenue	717,690	647,625
Jackpot liabilities	106,671	111,360
Capital lease obligations, current portion	59,196	66,273
Long-term debt, current portion	4,648,120	3,480,864
Deferred rent, current portion	6,197	—
Total current liabilities	7,954,017	5,366,588
Deferred rent	52,643	56,242
Capital lease obligations, net of current portion	78,008	137,204
Long-term debt, net of debt discount, net of current portion	7,436,171	12,056,467
Total liabilities	15,520,839	17,616,501
Commitments and Contingencies (See Note 12)		
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; 39,215,591 and 38,990,591 shares		
issued and outstanding at December 31, 2015 and 2014, respectively	39,216	38,991
Additional paid-in capital	2,963,841	2,844,488
Accumulated deficit	(792,446 )	(980,300 )

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

Accumulated other comprehensive income (loss)	239,598	(27,597 )
Total stockholders' equity	2,450,209	1,875,582
Total liabilities and stockholders' equity	\$17,971,048	\$19,492,083

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

## GALAXY GAMING, INC.

## STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2015	2014
Revenue:		
Product leases and royalties	\$ 10,915,410	\$ 9,835,345
Product sales and service	36,260	9,763
Total revenue	10,951,670	9,845,108
Costs and expenses:		
Costs of ancillary products and assembled components	95,930	80,525
Selling, general and administrative	7,133,681	5,537,165
Research and development	454,940	472,567
Depreciation	178,850	109,809
Amortization	1,495,012	1,561,631
Share-based compensation	119,677	323,759
Impairment of intangible assets	—	528,233
Total costs and expenses	9,478,090	8,613,689
Income from operations	1,473,580	1,231,419
Other income (expenses)		
Interest income	13,337	23,478
Interest expense	(1,047,434 )	(1,093,264 )
Total other expense	(1,034,097 )	(1,069,786 )
Income before provision for income taxes	439,483	161,633
Provision for income taxes	(251,629 )	(139,745 )
Net income	\$ 187,854	\$ 21,888
Basic earnings per share	\$ —	\$ —
Diluted earnings per share	\$ —	\$ —
Weighted average number of shares outstanding		
Basic	39,066,415	38,513,084
Diluted	39,123,489	38,517,594

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

## GALAXY GAMING, INC.

## STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended	
	December 31,	
	2015	2014
Net income	\$187,854	\$21,888
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	267,195	250,012
Total comprehensive income	\$455,049	\$271,900

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



## GALAXY GAMING, INC.

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Stock	Accumulated	Accumulated	Total
	Shares	Amount	Paid in Capital	Warrants	Deficit	Other Comprehensive Income (Loss)	Shareholders' Equity
Beginning balance, January 1, 2014	38,310,591	\$38,311	\$2,330,676	\$190,053	\$(1,002,188)	\$(277,609)	\$1,279,243
Net income	—	—	—	—	21,888	—	21,888
Other comprehensive income	—	—	—	—	—	250,012	250,012
Share based compensation expense	—	—	323,759	—	—	—	323,759
Issuance of restricted stock	680,000	680	—	—	—	—	680
Expiration of previously issued warrants	—	—	190,053	(190,053)	—	—	—
Balance, December 31, 2014	38,990,591	38,991	2,844,488	—	(980,300)	(27,597)	1,875,582
Net income	—	—	—	—	187,854	—	187,854
Other comprehensive income	—	—	—	—	—	267,195	267,195
Share based compensation expense	—	—	119,353	—	—	—	119,353
Issuance of restricted stock	225,000	225	—	—	—	—	225
Balance, December 31, 2015	39,215,591	\$39,216	\$2,963,841	\$—	\$(792,446)	\$239,598	\$2,450,209

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

## GALAXY GAMING, INC.

## STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net income for the year	\$ 187,854	\$ 21,888
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	178,850	109,809
Amortization expense	1,495,012	1,561,631
Provision for bad debts	33,907	—
Inventory reserve	54,696	—
Amortization of debt discount	208,632	208,632
Provision for income taxes	251,629	139,745
Share-based compensation	119,677	323,759
Impairment of intangible assets	—	528,233
Changes in operating assets and liabilities:		
Decrease in restricted cash	10,054	136,503
Increase in accounts receivable	(389,833 )	(199,455 )
Decrease (increase) in other current assets	60,095	(12,074 )
Increase in inventory	(288,795 )	(11,373 )
Increase in prepaid expenses	(25,898 )	(45,467 )
Increase in other long-term assets	—	(41,794 )
Increase in accounts payable	903,420	276,727
Increase in accrued expenses	304,798	198,209
Increase (decrease) in income taxes payable	109,015	(11,783 )
Increase in deferred revenue	70,065	120,703
Decrease in jackpot liabilities	(4,689 )	(135,162 )
Increase in deferred rent	2,598	56,242
Net cash provided by operating activities	3,281,087	3,224,973
Cash flows from investing activities:		
Acquisition of property and equipment	(45,638 )	(76,716 )
Acquisition of intangible assets	—	(35,000 )
Net cash used in investing activities	(45,638 )	(111,716 )
Cash flows from financing activities:		
Principal payments on capital leases	(66,273 )	(40,223 )
Principal payments on notes payable	(3,147,459)	(2,937,709)
Net cash used in financing activities	(3,213,732)	(2,977,932)
Effect of exchange rate changes on cash	(11,278 )	(13,643 )
Net increase in cash and cash equivalents	10,439	121,682
Cash and cash equivalents – beginning of year	560,184	438,502
Cash and cash equivalents – end of year	\$ 570,623	\$ 560,184
Supplemental cash flow information:		
Cash paid for interest	\$ 1,036,288	\$ 880,947
Cash paid for income taxes	\$ —	\$ —
Supplemental non-cash investing and financing activities information		
Assets acquired under capital leases	\$ —	\$ 243,700
Assets acquired under note payable	\$ —	\$ 86,634

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

Inventory transferred to leased assets	\$55,188	\$76,064
Offsetting of related party note receivable and note payable	\$383,298	\$—
Effect of exchange rate on note payable in foreign currency	\$131,014	\$396,083

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

GALAXY GAMING, INC.

Notes to Financial Statements

NOTE 1. NATURE OF OPERATIONS

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

History of business entities. A prior corporation, also named Galaxy Gaming, Inc. (“GGINC”) was incorporated in the State of Nevada on December 29, 2006, and acquired the business operations of several companies using the “Galaxy Gaming” moniker. Pursuant to these agreements, GGLLC sold selected assets, such as inventory and fixed assets, to GGINC. On January 1, 2007, GGLLC entered into several agreements with 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.

Secured Diversified Investment, Ltd. Secured Diversified Investment, Ltd., a publicly held Nevada corporation (“SDI”), was served with an involuntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Nevada, Case No. 08-16332. The Bankruptcy Court’s Order for Relief was entered on July 30, 2008. By order entered January 27, 2009, the Bankruptcy Court confirmed SDI’s Plan of Reorganization (“Plan”). On February 10, 2009, SDI entered into a share exchange agreement with GGINC (the “Reverse Merger”). In connection with the Reverse Merger, SDI obtained 100% of the issued and outstanding shares of GGINC and simultaneously GGINC became a wholly owned subsidiary of SDI. Pursuant to the terms and conditions of the Reverse Merger and the terms of the Plan, SDI issued 25,000,000 shares of common stock pro-rata to the former shareholders of GGINC in exchange for obtaining ownership of 100% of the issued and outstanding shares of GGINC”). SDI also issued 4,000,006 shares of new common stock on a pro rata basis to its creditors in exchange for the discharge of its outstanding debts under Chapter 11 of the U.S. Bankruptcy Code. All of SDI’s issued and outstanding equity interests existing prior to the Reverse Merger were extinguished and rendered null and void. Immediately following these events there were 29,000,006 shares of common stock issued and outstanding. 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. On September 1, 2009, our Board approved a merger of SDI with its subsidiary, GGINC, pursuant to Nevada Revised Statute. §92A.180 (“Short Form Merger”) and the surviving merged company was named “Galaxy Gaming, Inc.”

In October 2011, we executed an asset purchase agreement (“PTG Agreement”) with Prime Table Games LLC and Prime Table Games UK (collectively “Prime Table Games” or “PTG”). 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 in the United States, the United Kingdom and in the Caribbean (Three Card Poker rights are limited to the British Isles). The intellectual property portfolio includes 36 patents and 11 patents pending, 96 worldwide trademark and design registrations and 47 domain name registrations. We continue to develop products using the intellectual property acquired as a result of this transaction. See Note 17.

Description of business. We are engaged in the business of designing, developing, manufacturing and/or acquiring proprietary casino table games and associated technology, platforms and systems for the global gaming industry. In 2011, we expanded our product line with the addition of fully automated table games, known as e-Tables and separately, we entered into agreements to license our content for use by internet gaming operators. In 2015, we began offering SpectrumVision, a security product which assists in the detection of illegal card markings normally invisible to the naked eye. Casinos use our proprietary products to enhance their gaming floor operations and improve their profitability, productivity and security, as well as offer popular cutting-edge gaming entertainment content and technology to their players. We market our products to land-based, riverboat and cruise ship gaming establishments and to internet gaming companies. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. We market our products primarily via our internal sales force to casinos throughout North America, the Caribbean, the British Isles, Europe, Australia, 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 about 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 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](http://www.galaxygaming.com). Information found on the web site should not be considered part of this report.

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

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

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

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

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, the event also triggers a second MEGA-Share jackpot that is divided among all players who placed a MEGA-Share qualifying wager. MEGA-Share rewards other players playing on other tables, other games, or even in other casinos with a share of a second jackpot simply for having a wager placed at the time another player won the main jackpot.

**e-Tables.** In February 2011, we entered into a definitive agreement to license the worldwide rights, excluding Oklahoma, Kentucky and the Caribbean, to the TableMAX e-Table system and simultaneously obtained the e-Table rights to the casino table games Caribbean Stud, Caribbean Draw, Progressive Blackjack, Texas Hold'em Bonus and Blackjack Bullets. See Note 17. The TableMAX e-Table system is a fully automated, multi-player electronic table game platform which does not need a human dealer. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. The e-Table product enables automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability. As of December 2013, the TableMAX system offers several of our Proprietary Side Bets including Lucky Ladies and 21+3,

and Premium Games Three Card Prime and World Poker Tour Heads Up Hold'em.

Ancillary Equipment. In mid-2014, we entered into an exclusive licensing agreement with an independent inventor for worldwide rights to a proprietary technology which detects card markings. With this technology, we developed SpectrumVision, one unit which can detect most known card markings normally invisible to the naked eye. SpectrumVision will be available for a monthly lease fee or one-time purchase price. We began shipping the first units in 2015.

## 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 financial statements have been prepared in accordance with U.S. GAAP and the rules of the SEC. In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein.

**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. Units of SpectrumVision also reside in Inventory as finished goods, since we outsource the manufacturing of these units to a third party. Inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. We regularly assess inventory quantities for excess and obsolescence primarily based on forecasted product demand. See Note 5.

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

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

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

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

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

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



and an impairment loss will be recognized.

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

In 2011, for \$22,680,000 we acquired a large portfolio of intellectual property from a competitor that included patents, trademarks and a recurring revenue base in the United States and United Kingdom. See Note 17. The purchase price was allocated to various intangible assets including patents, client relationships, trademarks, non-compete agreement, goodwill and a debt discount. For the year ended December 31, 2014, we determined several patents purchased as part of this transaction to be impaired and reduced the carrying value of the intangible asset to zero during 2014. The total impairment charge recognized for these patents in 2014 was \$528,233. There were no impairment charges identified for the year ended December 31, 2015.

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

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. As of December 31, 2015 and 2014, we had the following client revenue concentrations:

		2015	2014
	Location	Revenue	Revenue
Client A	North America	14.7%	15.2%
Client B	North America	6.7%	5.7%
Client C	United Kingdom	6.5%	7.7%
Client D	North America	5.7%	5.0%

The amounts in accounts receivable related to these significant clients at December 31, 2015 and 2014 were approximately \$400,000 and \$451,000, respectively.

We are also exposed to risks associated with expiration of our patents. In 2015, domestic and international patents expired on two of our products, which account for approximately \$5,745,000 or 53% of our revenue for the year ended December 31, 2015.

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. See Note 12. These improvements have been recorded as a capital lease and amortized over the life of the lease.

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 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 are essential to the operation of the respective systems. As such, we do not segregate the portion of revenue between manufactured equipment and any software or electronic devices needed to use the equipment when the system is provided. We do not market the software separately from the equipment.

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

Research and development. We incur research and development (“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. As of December 31, 2015 and 2014, we did not record a valuation allowance.

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

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

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

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

Recently adopted accounting standards

**Discontinued Operations.** In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the criteria for reporting discontinued operations and modifies related disclosure requirements. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2014, and interim periods thereafter. The adoption of this guidance did not have a material effect on

our financial condition, results of operations or cash flows.

**Debt Issuance Costs.** In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the presentation of Debt Issuance Costs. ASU 2015-03 intends to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, which amended Subtopic 835-30 for the presentation and subsequent measurement of issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and is required to be applied retrospectively to all periods presented. Early adoption is permitted for financial statements that have not been previously issued. This guidance did not have a material effect on our financial condition, results of operations or cash flows.

**Business Combinations.** In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement to retrospectively apply adjustments

made to provisional amounts recognized in a business combination. It requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The effect of adopting this guidance in 2015 did not have a material effect on our financial condition, results of operations or cash flows.

#### New accounting standards not yet adopted

**Revenue Recognition.** In May 2014, the FASB issued 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. NOTE RECEIVABLE – RELATED PARTY

The note receivable at December 31, 2015 and 2014, was as follows:

	2015	2014
Note receivable	\$ —	\$383,298
Less: current portion		(383,298)
Total long-term note receivable	\$ —	\$—

## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

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

Interest income associated with this note receivable was \$13,445 and \$21,772 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, there was an interest receivable balance of \$0 and \$40,573 which is included in other current assets.

On August 10, 2015, our Board of Directors approved an agreement between the Company and Carpathia Associates, LLC, an entity which is owned and controlled by our Chief Executive Officer, Robert Saucier (the "Agreement"). The Agreement amends 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 will be that the balloon payment of \$437,313, due under the terms of the note receivable from Carpathia, will be applied to the outstanding note payable due to Carpathia. The Board believes that the Company benefits from the arrangement as the Agreement extends the note payable's balloon payment from February 2017 to December 2018. The balloon payment due in December 2018 will be \$354,480.

### NOTE 4. PREPAID EXPENSES

Prepaid expenses consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Regulatory compliance expenses	\$39,097	\$—
IT system	19,041	9,304
Insurance	13,408	16,612
Dues & subscriptions	10,859	14,562
Professional services	7,792	21,863
Travel	7,780	8,587
Trade show expense	6,000	7,000
Rent	1,989	1,989
Other prepaid expenses	372	523
Total prepaid expenses	\$106,338	\$80,440

### NOTE 5. INVENTORY

Inventory consisted of the following as of December 31, 2015 and 2014:



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

	2015	2014
Raw materials and component parts	\$231,709	\$111,247
Finished goods	170,528	96,254
Work-in-process	39,463	69,464
Subtotal	441,700	276,965
Less: inventory reserve	(30,000 )	(44,176 )
Total inventory	\$411,700	\$232,789

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2015 and 2014:

	2015	2014
Furniture and fixtures	\$211,411	\$197,751
Leasehold improvements	156,843	150,000
Vehicles	94,087	86,364
Computer equipment	89,203	84,186
Office equipment	29,140	17,403
	580,684	535,704
Less: accumulated depreciation	(281,807)	(153,606)
Property and equipment, net	\$298,877	\$382,098

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

Included in depreciation expense was \$128,859 and \$69,904 related to property and equipment for the years ended December 31, 2015 and 2014, respectively.

Property and equipment includes \$250,813 of leasehold improvements, furniture and fixtures under capital leases as of December 31, 2015. Accumulated depreciation of assets acquired under capital leases totaled \$104,909 at December 31, 2015.

NOTE 7. PRODUCTS LEASED AND HELD FOR LEASE

Products leased and held for lease consisted of the following at December 31, 2015 and 2014:

	2015	2014
Enhanced table systems	\$288,683	\$233,496
Less: accumulated depreciation	(154,198)	(107,831)
Products leased and held for lease, net	\$134,485	\$125,665

Included in depreciation expense was \$46,367 and \$36,282 related to products leased and held for lease for the years ended December 31, 2015 and 2014, respectively.

NOTE 8. INTANGIBLE ASSETS

Intangible assets consisted of the following at December 31, 2015 and 2014:

	2015	2014
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
License agreements	35,000	35,000
	20,450,967	20,450,967
Less: accumulated amortization	(7,189,331)	(5,694,319)
Intangible assets, net	\$13,261,636	\$14,756,648

Included in amortization expense was \$1,495,012 and \$1,561,631 related to the above intangible assets for the years ended December 31, 2015 and 2014, respectively.

In 2014, we recognized an impairment charge of \$528,233 relating to patents purchased in 2011 from PTG. We determined these patents to be adversely limiting in scope and nature and have a carrying value in excess of their fair value. As of December 2014, we abandoned our maintenance of the patents and reduced the carrying value to zero.

NOTE 9. ACCRUED EXPENSES

Accrued expenses, consisted of the following at December 31, 2015 and 2014:

	2015	2014
Royalties	\$259,193	\$59,715
Professional fees	154,888	60,779
TableMAX reimbursement	136,785	72,636
Salaries & payroll taxes	95,115	70,262
Trade show expenses	78,549	41,666
Vacation	62,546	58,642
Commissions	22,056	148,902
Accrued interest	14,832	3,686
Other accrued expenses	—	2,878
Total accrued expenses	\$823,964	\$519,166

## NOTE 10. CAPITAL LEASE OBLIGATIONS

Capital lease obligations consisted of the following at December 31, 2015 and 2014:

	2015	2014
Capital lease obligation – leasehold improvements	\$ 107,365	\$ 135,171
Capital lease obligation – office furniture	29,839	68,306
	137,204	203,477
Less: Current portion	(59,196 )	(66,273 )
Capital lease obligations	\$ 78,008	\$ 137,204

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

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:

December 31,	Total
2016	\$ 65,615
2017	34,545
2018	34,545
2019	14,393
2020	—
Total minimum lease payments	\$ 149,098
Less: amount representing interest	(11,894 )
Present value of net minimum lease payments	\$ 137,204

## NOTE 11. NOTES PAYABLE

Notes payable consisted of the following at December 31, 2015 and 2014:

	2015	2014
PTG notes payable, net of discount	\$ 10,934,544	\$ 14,385,643
Carpathia Associates note payable (related party)	579,083	1,065,324
Robert Saucier note payable (related party)	500,000	—
Vehicles, notes payable	70,664	86,364
	12,084,291	15,537,331
Less: current portion	(4,648,120 )	(3,480,864 )
Total long-term debt	\$ 7,436,171	\$ 12,056,467

The Carpathia note payable is a related party note as a result of the asset purchase agreement with GLLC. The note payable originally required 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. The note payable between GLLC and Bank of America was the subject of litigation and was settled in February 2014. See Note 12 for further details regarding the litigation. On August 10, 2015, our Board of Directors approved an agreement of offset between the Company and Carpathia which amends the terms of the note receivable and note payable previously entered into. See Note 3 for further details regarding the offset.

On October 26, 2015, we entered into a note payable with Mr. Saucier our CEO. We agreed to repay a loan of \$500,000 made by Mr. Saucier to the Company. Under the terms of the note payable, \$590,000 shall be due on or before October 26, 2016, unless we pay Mr. Saucier \$535,000 on or before April 26, 2016, in which case we will have fulfilled all of our obligations under the note. The note payable is unsecured.

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

In October 2011, we closed an asset acquisition with Prime Table Games (“PTG Assets”). 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). The fair value of the notes, net of the debt discount, was \$20,670,000 at the time of issuance. The note terms are summarized as follows:

Payment Year	Monthly Payment Amounts		Interest Rate
	Prime Table Games, LLC (in USD)	Prime Table Games UK (in GBP)	
2012	\$ 100,000	£64,000	3 %
2013	130,000	76,800	4 %
2014	160,000	89,600	5 %
2015	190,000	102,400	6 %
2016	220,000	115,200	7 %
2017	220,000	115,200	8 %
2018	220,000	115,200	9 %

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

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

Maturities of our notes payable as of December 31, 2015 are as follows:

Maturities as of:	Total
2016	\$4,648,120
2017	4,370,645
2018	3,689,905
2019	18,934
2020	—
Total long term debt	\$ 12,727,604
Less: debt discount	(643,313 )
Long-term debt, net of debt discount	\$ 12,084,291

NOTE 12. 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, which is comprised of approximately 16,000 square feet office space and 8,000 square feet warehouse. The property is located in Las Vegas, Nevada.

The initial term of the Spencer Lease commenced on April 1, 2014. We are obligated to pay approximately \$153,000 in annual base rent in the first year, and the annual base rent will increase 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 then current fair market value rental rate determined in accordance with the terms of the Lease.

In connection with the Spencer Lease, the landlord agreed to finance tenant improvements of \$150,000 (“TI Allowance”). 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 10.

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 landlord at least six months before the Termination Date. In the event we exercise our option to terminate, we shall pay the landlord a termination fee (the “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.

## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

The amounts shown in the accompanying table reflect our estimates of lease obligations for the twelve months ending 2016 through 2020 and are based upon our current operating leases:

	Annual Obligation
Twelve Months Ended December 31, (Estimate)	
2016	222,678
2017	231,420
2018	240,156
2019	125,064
2020	—
Total Estimated Lease Obligations	\$ 819,318

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 or defendant, that are complex in nature and have outcomes that are difficult to predict. In accordance with ASC Topic 450, we record accruals for such contingencies to the extent 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.

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

In August 2013, GGCA and our CEO filed a motion for writ of mandate with the Sacramento County Superior Court, asking the Court for a judicial review of the California Commission’s ruling. A hearing on the motion has been scheduled for July 2016. There can be no assurances that the judicial review will be successful or that our CEO will be found suitable. Subsequently, in September 2013, we were notified that until this matter is resolved, we were not permitted to conduct business with tribal casinos in California.

In July 2014, we filed an application with the California Bureau of Gambling Control for a finding of suitability. That application is in process.

Bank of America action. In October 2012, we were served with a complaint by Bank of America (“BofA”) regarding a promissory note payable by GLLC to BofA. The complaint, filed in the Eighth Judicial District Court in the State of Nevada, alleged that we received valuable assets from GLLC in 2007 for little or no consideration. In the complaint, BofA sought to collect in full the outstanding principal and any accrued interest owed under the promissory note. We filed a cross-complaint against BofA claiming that abuse of process, slander of business and detrimental promissory reliance. On February 21, 2014, we reached a full settlement and all legal actions against all parties were



subsequently dismissed.

In Bet litigation. In November 2014, we filed a complaint for patent infringement against In Bet Gaming, Inc. and In Bet, LLC, alleging that their “In-Between” side bet game infringes on one or more of our patents. The litigation is currently pending.

Red Card Gaming & AGS litigation. In September 2012, we executed an asset purchase agreement (“APA”) with Red Card Gaming, Inc. (“RCG”), for the purchase of all the rights, title and interest in and for the game known as High Card Flush and all associated intellectual property. The APA included customary non-compete, non-disparagement and right of first refusal provisions. In 2014, AGS, LLC (“AGS”) purchased RCG’s rights in the APA and became the assignee of the APA. In September 2014 we notified RCG of their material breach of the APA and discontinued contingent consideration payments. In November 2014, RCG and AGS attempted to terminate the APA and in December 2014, began selling their own High Card Flush game and filed a complaint against us alleging 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.

In February 2016, we received notice the arbitration panel (the “Panel”) 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. Additional briefing on the matter, relating to questions about the amount of attorneys’ fees to be awarded to Galaxy, has been requested from the Panel. After

reviewing the briefs, the Panel will either rule on the briefs or will schedule oral argument. Based on the Interim Award, we believe the final award to be issued by the Panel will not contain a material adverse effect to us.

Uncertain tax positions. As further discussed in Note 15, we have adopted the provision of ASC 740. We had \$67,873 of uncertain tax position as of December 31, 2015. Due to the inherent uncertainty of the underlying tax positions, it is not possible to forecast the payment of this liability to any particular year.

#### NOTE 13. 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 December 31, 2015.

In February 2014, an independent contractor (the "Contractor") was granted 150,000 shares of our restricted common stock. Of this amount, 75,000 vested and transferred immediately, with the remaining 75,000 vesting in equal installments through (and transferring on) January 1, 2015.

In March 2014, Norm DesRosiers, one of our Directors, was granted 100,000 shares of our restricted common stock as condition of his Board of Directors Director Service Agreement. The fair market value of the grant was \$28,000 which was determined using our closing stock price at March 1, 2014, the date of the grant. The restricted stock grant vested immediately.

In May 2014, William A. Zender, 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 \$35,250 which was determined using our closing stock price at May 1, 2014 the date of the grant. The restricted stock grant vested immediately.

In December 2014, the Board of Directors approved a stock grant for a small group of employees that granted 255,000 shares of restricted common stock. The fair market value of the grant was \$102,000 which was determined using our closing stock price at December 29, 2014, the date of the grant. The restricted stock grant vested immediately.

In December 2014, the Compensation Committee of the Board of Directors approved a bonus in the form of stock compensation to our Chief Financial Officer Gary A. Vecchiarelli, based on Mr. Vecchiarelli's individual performance. The stock grant was for 100,000 restricted shares of our common stock with a fair market value of \$40,000. The value of the bonus was determined using our closing stock price at December 29, 2014, the date of the grant.

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 at 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. The restricted stock will vest at six-month intervals through December 31, 2018.

There were 39,215,591 common shares and no preferred shares issued and outstanding at December 31, 2015.

NOTE 14. RELATED PARTY TRANSACTIONS

Through April 2014, we leased our prior offices located on O'Bannon Drive in Las Vegas from the Saucier Business Trust, an entity that is related to our CEO. The lease was entered into effective September 1, 2010 for a period of two years requiring a monthly rental payment of \$10,360. Our lease expired at the end of August 2012 and then converted to a term of month-to-month. Total payments made were \$0 and \$37,296 in 2015 and 2014, respectively.

On December 31, 2007, as a part of our acquisition of assets from GLLC, an entity formerly controlled by our CEO, we acquired a note receivable from Abyss Group, LLC ("Abyss"), an entity that was formerly related to the wife of our CEO. Subsequently, Abyss assigned the note to Carpathia Associates, LLC ("Carpathia"), an entity controlled by our CEO. The note receivable was a ten-year unsecured note with a 6% fixed interest rate, monthly principal and interest payment of \$6,598 with the unpaid principal and interest due in February 2017. The terms of the note were amended whereby the monthly principal and interest payment was reduced to \$3,332 and the unpaid principal and interest was to be due August 2015.

As part of the acquisition of assets from GLLC in 2007, we entered into a note payable to GLLC. Subsequently, GLLC assigned the note payable to Carpathia. The note payable originally required monthly principal and interest payments of \$9,159 at a fixed interest rate of 7.3% through February 2017, at which time a balloon payment of \$1,003,000 would be due. The note payable between GLLC and Bank of America was the subject of litigation and was settled in February 2014. See Note 12 for further details regarding the settlement with Bank of America.

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

On August 10, 2015, our Board of Directors approved an agreement of offset (the “Offset Agreement”) between the Company and Carpathia. The Offset Agreement amended the terms of a note receivable and note payable previously entered into between the parties which offsets the note receivable and note payable between the two parties. The effective result is that the balloon payment of \$437,313, due in August 2015 under the original terms of the note receivable from Carpathia, will be applied to the outstanding note payable due to Carpathia. The Board believes that the Company benefits from the arrangement as the Offset Agreement extends the note payable’s balloon payment from February 2017 to December 2018. The balloon payment due in December 2018 will be \$354,480.

The balance of the note receivable from Carpathia was \$0 and \$383,298 at December 31, 2015 and 2014, respectively. Interest income associated with this note receivable was \$13,443 and \$21,772 for December 31, 2015 and 2014, respectively.

The balance of the note payable to Carpathia was \$579,083 and \$1,065,324 at December 31, 2015 and 2014, respectively. Interest expense associated with this note payable was \$60,985 and \$80,054 for December 31, 2015 and 2014, respectively.

On October 26, 2015 we entered into a Promissory Note (the “Saucier Note”) with Robert Saucier, Chief Executive Officer, pursuant to which the Company has agreed to repay a loan of \$500,000 made by Mr. Saucier to the Company. Under the terms of the Saucier Note, \$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 Note.

NOTE 15. INCOME TAXES

The components of the provision (benefit) consist of the following at December 31, 2015 and 2014:

	2015	2014
<b>Current:</b>		
Federal	\$ 142,482	\$ 6,430
State	12,277	3,305
Total current	\$ 154,759	\$ 9,735
<b>Deferred:</b>		
Federal	98,822	350,338
State	(1,952 )	1,115
Change in valuation allowance	—	(221,443)
Total deferred	\$ 96,870	\$ 130,010
Provision (benefit) for income taxes	\$ 251,629	\$ 139,745

The income tax provision (benefit) differs from that computed at the federal statutory corporate income tax rate as follows for years ended December 31, 2015 and 2014:

2015                      2014

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

Tax provision/(benefit) computed at the federal statutory rate	\$ 155,841	\$ 68,787
State income tax (provision), net of federal benefit	6,112	3,067
Permanent items	93,300	95,916
Credits	(72,050 )	(83,978 )
True ups and rounding	553	206,719
Change in valuation allowance	—	(221,443)
Uncertain tax positions	67,873	70,677
Income tax provision (benefit)	\$ 251,629	\$ 139,745

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

The tax effects of significant temporary differences representing net deferred tax assets and liabilities consisted of the following at December 31, 2015 and 2014:

	2015	2014
<b>Deferred Tax Assets:</b>		
Current deferred tax assets	\$43,017	\$48,000
Intangible assets	185,000	96,000
Unrealized foreign currency translation	39,000	8,000
Research & development credits	110,000	205,000
Other	78,562	50,035
<b>Total deferred tax assets</b>	<b>455,579</b>	<b>407,035</b>
<b>Deferred Tax Liabilities:</b>		
Basis difference in fixed assets	(194,000)	(148,000)
Uncertain tax positions	(136,000)	(68,000)
<b>Total deferred tax liabilities</b>	<b>(330,000)</b>	<b>(216,000)</b>
<b>Gross deferred tax asset (liability)</b>	<b>125,579</b>	<b>191,035</b>
<b>Less: valuation allowance</b>	<b>—</b>	<b>—</b>
<b>Net deferred tax assets</b>	<b>\$125,579</b>	<b>\$191,035</b>

In accordance with ASC Topic 740, we analyzed our valuation allowance at December 31, 2015 and determined that, based upon available evidence, it is more likely than not that certain of its deferred tax assets will be realized and, as such, has removed any valuation allowance against certain deferred tax assets. We anticipate utilization of both our foreign tax credits and research credit carryforwards.

As of December 31, 2015, we expect to use all of our foreign tax credits of \$26,173. The foreign tax credits will be used to offset federal income tax owed in 2015.

#### NOTE 16. STOCK OPTIONS AND WARRANTS

Warrant activity. We have accounted for warrants as equity instruments in accordance with Emerging Issues Task Force (“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, they will be classified in stockholders’ equity as they meet the definition of “...indexed to the issuer’s stock” in EITF 01-06 (ASC 815-40) The Meaning of Indexed to a Company’s Own Stock . In prior years, we estimated the fair value of the warrants using the Black-Scholes option pricing model based on assumptions at the time of issuance.

A summary of warrant activity is as follows:

Common Stock    Weighted Average

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

	Warrants	Exercise Price
Outstanding - January 1, 2014	616,667	\$ 0.56
Issued	—	—
Exercised	—	—
Expired	(616,667 )	0.56
Outstanding - December 31, 2014	—	—
Issued	—	—
Exercised	—	—
Expired	—	—
Outstanding - December 31, 2015	—	\$ —
Exercisable - December 31, 2015	—	\$ —

38

---

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

Stock options. For the years ended December 31, 2015 and 2014, we issued 675,000 and 289,583 stock options, respectively. Stock options issued to members of our Board of Directors were 275,000 and 158,333 for the years ended December 31, 2015 and 2014, respectively. The stock options granted in 2015 were calculated to have a fair value of \$76,227 using the Black-Scholes option pricing model with the following assumptions:

	Options issued year ended
	December 31, 2015
Dividend yield	0%
Expected volatility	84% - 85%
Risk free interest rate	1.18% - 1.81%
Expected life (years)	5

A summary of stock option activity is as follows:

	Common Stock	Weighted Average
	Options	Exercise Price
Outstanding - January 1, 2014	100,000	\$ 0.25
Issued	281,250	0.41
Exercised	—	—
Expired	—	—
Outstanding - December 31, 2014	381,250	0.36
Issued	675,000	0.23
Exercised	—	—
Expired	—	—
Outstanding - December 31, 2015	1,056,250	\$ 0.28
Exercisable - December 31, 2015	225,000	\$ 0.18

Share-based compensation. The cost of all stock options and stock grants issued have been classified as share-based compensation on the statement of operations for the years ended December 31, 2015 and 2014. Total share-based compensation was \$119,677 and \$323,759 for the years ended December 31, 2015 and 2014, respectively.

NOTE 17. 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. 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 with us a non-compete agreement.



## Edgar Filing: Galaxy Gaming, Inc. - Form 10-K

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 11 for details regarding the 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	\$22,680,000

As of December 31, 2014, we determined several patents purchased as part of this transaction to be impaired and reduced the carrying value of the intangible asset to zero during 2014. The total impairment charge recognized for these patents in 2014 was \$528,233.

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. The term of the TMAX Agreement is five years. At any time during the term of the TMAX Agreement, either TMAX or we may make a written offer to purchase the sole ownership of the TableMAX Division. Such offer shall be subject to the parties’ mutual agreement and neither party shall be under any obligation to accept such an offer. If such an agreement has not been consummated within six months of the expiration of the TMAX Agreement, then each party must indicate to the other party no later than six months from the scheduled expiration of the TMAX Agreement, their intent to renew the TMAX Agreement for a term of at least one year, or terminate.

TMAX 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 significant losses attributable to the TableMAX Division.

Included in accrued expenses was \$136,785 and \$72,636, which represents reimbursement due to TMAX for the years ended December 31, 2015 and 2014, respectively.

NOTE 18. SUBSEQUENT EVENTS

Red Card Gaming & AGS Litigation. In February 2016, we received notice the arbitration panel issued an interim award which results in retention of all rights and privileges in the ownership of the product and trademark High Card Flush. Please refer to Note 12 Commitments and Contingencies for detailed information.

In accordance with ASC 855-10, we have analyzed our operations subsequent to December 31, 2015 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.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No events occurred requiring disclosure under Item 307 and 308 of Regulation S-K during the fiscal years ending December 31, 2015 and 2014.

### ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our CEO and Treasurer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our CEO and CFO carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based on their evaluation, they concluded that our disclosure controls and procedures were effective.

Our internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of our Board and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our CEO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation under the criteria established in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management’s report in this annual report.

During the most recently completed fiscal year, there has been no change in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

41

---

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and executive officers. The following information sets forth the names of our current directors and executive officers and their ages.

Name	Age	Office(s) held	Years in Position/Date of Appointment or Commencement
Robert B. Saucier	61	CEO, President and Chairman of the Board	18 years/October 7, 1997
Gary A. Vecchiarelli	38	CFO, Secretary and Treasurer	4 years/July 1, 2012
Norm DesRosiers	66	Director	2 years/March 1, 2014
William A. Zender	60	Director	2 years/May 1, 2014
Bryan W. Waters	53	Director	1 years/April 1, 2015

Set forth below is a brief description of the background and business experience of each of our current executive officers and directors.

Robert B. Saucier is our President, CEO, and Chairman of the Board. Mr. Saucier is our founder and has served in those capacities since inception and for our accounting and operational predecessors since 1997. Besides leading the executive team, Mr. Saucier's primary responsibilities include product development, strategic planning, developing acquisition strategies and investor relations. During his career, Mr. Saucier has founded and grown five start-up companies. He was founder and CEO of the Mars Hotel Corporation, (1992 - 1998) a company that developed and managed the first non-tribal casino in Washington. Previously, Mr. Saucier founded International Pacific, an Inc. 500 company which recorded a 2,447% growth rate (five year period) and served as its President and Chairman (1986 - 1992). He also founded and led Titan International, Inc. (1981 - 1986), a company that was engaged in electronic safety, security and surveillance systems. Throughout his career, Mr. Saucier has consulted with and invested in numerous business ventures and real estate development projects. Among other qualifications, Mr. Saucier brings to the Board executive leadership experience, including his service as CEO of a casino, along with extensive domestic and international business experience.

Gary A. Vecchiarelli is our Chief Financial Officer, Corporate Treasurer and Secretary. Mr. Vecchiarelli has over fifteen years of professional experience in accounting and finance. Most of Mr. Vecchiarelli's career has been in public accounting with two national accounting firms. Early in his career, Mr. Vecchiarelli worked with Crawford, Pimentel & Co., Inc, a regional firm based in San Jose, CA, and national firm McGladrey & Pullen, LLP from 2003 to 2008. From 2008 to 2011, Mr. Vecchiarelli joined BDO USA, LLP ("BDO"), where he played a key role in helping to open and establish the firm's Las Vegas audit practice. Mr. Vecchiarelli has significant experience working with complex accounting issues including mergers & acquisitions, revenue recognition, SEC financial reporting and Sarbanes-Oxley compliance. During his tenure with BDO, Mr. Vecchiarelli's clientele included gaming manufacturers Aruze Gaming America, Inc., FortuNet, Inc. and one of the world's largest timeshare companies - Diamond Resorts International. Mr. Vecchiarelli is a member of the American Institute of Certified Public Accountants, Financial Executives International and Institute of Management Accountants. He has been a two-term President of the Las Vegas Chapter of the Institute of Management Accountants and served on its Board of Directors 2008-2015. Currently, Mr. Vecchiarelli serves on the Board of Directors of Financial Executives International, Las Vegas Chapter

and is the President elect for the 2016-2017 term. Mr. Vecchiarelli maintains an active CPA license in the states of California and Nevada. In March 2014, Mr. Vecchiarelli was named to the Las Vegas “40 under 40” class of 2014 by VEGAS Inc., a Greenspun Media Group publication.

Norm DesRosiers is a Director. A veteran of the U.S. Army, Mr. DesRosiers earned a Bachelor’s Degree in Law and Justice from Central Washington State University in 1975. For the period of 1970 to 1979, Mr. DesRosiers became a Law Enforcement Sergeant with the Lynnwood, WA Police Department. For the period of 1980 to 1992, Mr. DesRosiers held several positions with Boeing Commercial Aircraft Company. During that period, he also spent several years operating his own private investigation firm. In 1993, Mr. DesRosiers joined the Fort McDowell Gaming Commission in Arizona, enforcing gaming regulatory compliance. In 1994, he joined the San Carlos Apache Tribal Gaming Commission in Arizona as Executive Director, during which time his organization was recognized as a model regulatory agency. In 1998, Mr. DesRosiers became a Commissioner with Viejas Gaming Commission in California, where he wrote ordinances and gaming commission regulations. In 2007, he was appointed by the U.S. Secretary of the Interior to serve as one of a three member commission for the National Indian Gaming Commission (NIGC) located in Washington D.C.. Most recently in 2010, Mr. DesRosiers joined the San Manuel Tribal Gaming Commission in California as Executive Director, and was appointed as Commissioner seven months later. His credentials include serving on the Federal Advisory Committee to the National Indian Gaming Commission for the Development of Environmental, Health and Safety Regulations for Tribal Gaming facilities (2001). He also has written the first technical standards for gaming devices to be adopted in the State of California and has published numerous articles on tribal gaming regulatory subjects. Among other qualifications, Mr. DesRosiers brings to the Board extensive gaming industry experience from industry regulatory organizations.

William A. Zender is a Director. A graduate of the University of Nevada at Las Vegas, Mr. Zender earned a Bachelor's Degree in Hotel Administration in 1976 and a Master's Degree in Business from the University of Phoenix in 2004. For the period of 1979 to 1981, Mr. Zender became an Enforcement Agent with the Nevada Gaming Control Board. In 1982, Mr. Zender performed various consulting services and continued such consulting through various times during his career. In 1988, Mr. Zender became the Asian Games Manager at the famous Desert Inn Casino in Las Vegas until 1989 when he became the Casino Manager for the Maxim Hotel and Casino, also in Las Vegas. In 1991, Mr. Zender was the Games Manager at Artichoke Joe's Casino in San Bruno, California. Mr. Zender was the Vice President and Owner of the Aladdin Hotel and Casino from 1992 to 1997. In 2005, Mr. Zender became Consultant and Owner of Last Result Consulting until 2007 at which time he began performing consulting services full time through Bill Zender and Associates, LLC. His credentials include authoring seven books on gambling and gaming management and is currently a monthly contributor to Casino Enterprise Management Magazine. Mr. Zender was awarded the "Lifetime Achievement Award" at the 2014 World Game Protection Conference for his invaluable contributions and generous dedication to the casino industry. Mr. Zender brings to the Board extensive table game industry experience.

Bryan W. Waters was appointed as a Director, effective April 1, 2015. A graduate of University of California, Los Angeles, Mr. Waters started his career with Wells Fargo Bank in 1988 where he held numerous positions, including President of the Southern Nevada region. In 2001, Mr. Waters became Chief Financial Officer of Camco, Inc. (dba "SuperPawn") a specialty finance lender with both brick-and-mortar and internet retailing operations with gross revenues in excess of \$70 million. Shortly after his appointment, Mr. Waters also absorbed the roles of President and Chief Operating Officer until the successful sale of the company to Cash America International, Inc. a NYSE listed company. Mr. Waters joined Pacific National Bank in 2006 as President and Chief Executive Officer, and was responsible for a privately held \$2.3 billion 17 branch bank, which is now part of U.S. Bank. In 2010, Mr. Waters became Chief Executive Officer of B-Line, LLC, the largest purchaser and servicer of unsecured consumer bankruptcy debt in the country. At the time of its successful sale in 2011, B-Line owned and serviced in excess of \$300 million in assets. In 2012, Mr. Waters founded Magnolia Lane Partners, LLC, which is comprised of former executives of B-Line which is an advisory and asset management firm focused primarily in the accounts receivable management industry with a specific focus on purchasing consumer receivables in bankruptcy. Also in 2012, Mr. Waters joined the Board of CBV Collection Services, LTD ("CBV"), a private equity and management owned company which is one of the largest independent outsourcing, collection services and debt buying organization in Canada. In September of 2013, Mr. Waters assumed the role of Chief Executive Officer of CBV and continues to serve in that role at present. Mr. Waters is a tenured senior executive and brings to the Board significant experience in finance, commercial banking, capital raising, financial turnaround, strategic and tactical planning and new company start-ups.

Our bylaws authorize no fewer than one and no more than thirteen directors. We currently have four directors.

Term of office. Our directors are generally appointed for a one-year term. Our officers are appointed by our Board and hold office until removed by the Board.

Family relationships. There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

Director or officer involvement in certain legal proceedings. To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company:

- (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and
- (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading



Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

None.

Committees of the Board. We do not currently have an executive committee or stock plan committee of our Board of Directors.

Compensation committee. At a meeting of the Board of Directors on July 8, 2014, the Board approved the creation of a Compensation Committee, and on October 13, 2014, adopted the Compensation Committee Chart (the "Charter").

Pursuant to the Charter, the Compensation Committee is to be comprised of no fewer than two non-employee members of the Board, and the members shall be free from any relationships or conflicts of interest with respect to the Company that would impair the member's ability to make independent judgments. The members of the Compensation Committee will be appointed by the Board, and can be removed by the Board at any time, with or without cause.

The authority and duties of the Compensation Committee include: to approve the corporate goals and objectives relating to compensation of the CEO, reviewing on an annual basis, the CEO's recommendations relating to the compensation of other executives

and key employees; in consultation with the CEO, reviewing and approving the compensation and bonus incentive structure of the CFO and any company-wide bonus plans; approving any material grants of equity compensation of more than 100,000 shares of the Company's common stock; to retain and terminate any compensation consultant; and to review and assess the adequacy of the Charter.

As of the date of this Report, the members of the Compensation Committee were Mr. Zender (Chairman), and Mr. DesRosiers.

The Compensation Committee set Mr. Saucier's base salary at \$200,000 effective October 13, 2014. Additionally, Mr. Saucier will receive an automobile allowance of up to \$400 per month.

Corporate Governance committee. At a meeting of the Board of Directors on July 8, 2014, the Board approved the creation of a Corporate Governance Committee. As of the date of this Report, the Board had not finalized the Corporate Governance Committee Charter.

As of the date of this Report, the members of the Corporate Governance Committee were Mr. DesRosiers (Chairman), Mr. Zender and Mr. Waters.

Audit committee. We do not have a separately-designated standing audit committee. The entire Board performs the functions of an audit committee, but no written charter governs the actions of the Board when performing the functions of what would generally be performed by an audit committee. The Board approves the selection of our independent accountants and meets and interacts with the independent accountants to discuss issues related to financial reporting. In addition, the Board reviews the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, considers the adequacy of our internal accounting procedures and considers other auditing and accounting matters including fees to be paid to the independent auditor and the performance of the independent auditor.

Nominating committee. Our Board does not maintain a nominating committee. As a result, no written charter governs the director nomination process. The size of our Board, at this time, does not require a separate nominating committee.

When evaluating director nominees, our directors consider the following factors:

- (1) The appropriate size of our Board;
- (2) Our needs with respect to the particular talents and experience of our directors;
- (3) The knowledge, skills and experience of nominees, including experience in finance, administration or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;
- (4) Experience in political affairs;
- (5) Experience with accounting rules and practices; and
- (6) The desire to balance the benefit of continuity with the periodic injection of the fresh perspective provided by new Board members.

Our goal is to assemble a Board that brings together a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Board will also consider candidates with appropriate non-business backgrounds. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Board may also consider such other factors as it may deem are in our best interests as well as our stockholders. In addition, the Board identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination. If any member of the Board does not wish to continue in service or if the Board decides not to re-nominate a member for re-election, the Board then identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Board are polled for suggestions as to individuals meeting the criteria described above. The Board may also engage in research to

identify qualified individuals. To date, we have not engaged third parties to identify or evaluate or assist in identifying potential nominees, although we reserve the right in the future to retain a third party search firm, if necessary. The Board does not typically consider shareholder nominees because it believes that our current nomination process is sufficient to identify directors who serve our best interests.

Code of Ethics. As of December 31, 2015, we had not adopted a Code of Ethics for Financial Executives, which would include our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Section 16(a) beneficial ownership reporting compliance. Section 16(a) of the Exchange Act required our directors and executive officers and persons who beneficially own more than ten percent of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of our knowledge based solely on a review of Forms 3, 4, and 5 (and any amendments thereof) received by us

during or with respect to the year ended December 31, 2015, there were no reports required by Section 16(a) of the Exchange Act during fiscal year ended December 2015 which were not timely filed.

## ITEM 11. EXECUTIVE COMPENSATION

Compensation discussion and analysis. Our current executive compensation system consists of cash compensation to the executive officers, who are primarily responsible for the day-to-day management and continuing development of our business.

We presently do not have an employment agreement or any fixed policy regarding compensation of Robert Saucier, our CEO. As of the date of this Report, Mr. Saucier receives cash compensation of \$200,000 per year, which was raised to that level as of October 13, 2014. Mr. Saucier also receives a monthly auto allowance of \$400 in addition to standard health and other benefits in accordance with our employment policies. As our founder and managing member of our largest shareholder, Mr. Saucier holds a strong interest in developing and expanding our business to the best of his ability.

On November 14, 2015, we entered into a new employment agreement with Gary A. Vecchiarelli, our CFO. The effective date of Mr. Vecchiarelli's employment agreement was July 1, 2015 and has a term extending through December 31, 2018. Under the terms of the employment agreement, Mr. Vecchiarelli will be paid an annual base salary of \$180,000. Additionally, Mr. Vecchiarelli will be eligible for bonus compensation up to 50% of his base salary, but not less than 10%. Mr. Vecchiarelli has the right to elect to use up to 50% of his annual bonus to purchase shares of our common stock at a 50% discount to the then-current market price of the stock, calculated as an average of the previous 10 trading days' closing price. Mr. Vecchiarelli also received a grant of 150,000 shares of restricted stock which vests 25,000 shares every 6 months beginning June 30, 2016 through the term of his employment agreement. We also granted Mr. Vecchiarelli 150,000 options to purchase our common stock with the strike price of the options based on the closing price of our common stock on the date the employment agreement was executed, \$0.20. Mr. Vecchiarelli also receives standard health and other benefits in accordance with our employment policies. In December 2015, Mr. Vecchiarelli received a bonus of \$18,000. On February 28, 2016, he elected to use \$9,000 of his bonus to purchase 100,000 shares of our common stock at \$0.09 per share, representing a 50% discount to market, calculated as an average of the previous 10 trading days' closing price.

Summary compensation table. The table below summarizes all compensation awarded to, earned by, or paid to our current executive officers for each of the last two completed fiscal years.

### SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock awards (\$)	Option	Non-qualified deferred earnings (\$)	All other compensation (\$) <sup>(1)</sup>	Total (\$)
					awards Non-equity incentive plan (\$)			
Robert Saucier, CEO	2015	\$200,000	—	—	—	—	\$24,800	\$224,800
	2014	\$133,333	—	—	—	—	\$17,256	\$150,589

Chief  
Executive  
Officer  
Gary A.  
Vecchiarelli  
(2)

Chief Financial Officer	2015	\$165,000	\$9,000	\$22,000	\$3,608	—	—	\$16,500	\$216,108
	2014	\$150,000	—	\$40,000	\$5,805	—	—	\$15,000	\$210,805

(1) For our executives, all other compensation includes standard benefits such as health premiums and contributions to a deferred contribution plan (“401k”). Mr. Saucier’s amount includes approximately \$4,800 for an auto allowance.

(2) The dollar amounts of Mr. Vecchiarelli’s option awards are the vested grant date fair value of the option awards. Please refer to Note 16 to our audited financial statements, included in this Report, for further information about our calculation of those amounts, which we based on the reported closing market price of our common stock on the date we granted the options. As it relates to Mr. Vecchiarelli’s 2012 Employment Agreement, his options vested 33% on his first anniversary (July 2, 2013) and in equal monthly installments for the remaining 24 months. As it relates to Mr. Vecchiarelli’s 2015 Employment Agreement, his options vest in 6 equal installments semi-annually on June 30 and December 31, beginning June 30, 2016 through December 31, 2018.

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

Outstanding equity awards at fiscal year-end table. The table below summarizes all unexercised options, stock that has not vested, and equity incentive plan awards for each named executive officer outstanding as of the end of our last completed fiscal year.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END  
OPTION AWARDS

STOCK AWARDS

Name	Number of Securities Underlying		Equity Incentive Plan Awards: Number of Securities Underlying		Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested		Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested	
	Exercisable	Unexercisable	Unexercised	Unearned		Not Vested	Not Vested	Not Vested	Not Vested
Robert B. Saucier, CEO	100,000	—	—	—	7/1/2017	—	—	—	—
Gary A. Vecchiarelli, CFO	—	150,000	—	—	12/31/2018	80,000	\$30,000	—	—

Compensation of directors table. The table below summarizes all compensation paid to our directors for our last completed fiscal year.

DIRECTOR COMPENSATION

Name	Fees earned or paid in cash	Stock awards	Option awards	Non-qualified Non-equity deferred incentive plan compensation		All other compensation	Total
				earnings	compensation		
Robert B. Saucier (1)	\$ —	—	—	—	—	—	\$ —

Norm DesRosiers <sup>(2)</sup>	\$ 27,500	—	\$ 16,041	—	—	—	\$43,541
William A. Zender <sup>(3)</sup>	\$ 27,500	—	\$ 16,041	—	—	—	\$43,541
Bryan Waters <sup>(4)</sup>	\$ 20,000	\$ 20,250	\$ 11,064	—	—	—	\$51,314

- (1) Robert Saucier did not receive any cash compensation from us for his service as a member of the Board. His compensation is set forth in the Summary Compensation Table above.
- (2) Mr. DesRosiers was appointed to the Board effective March 1, 2014. As of the effective date of his directorship, Mr. DesRosiers received a stock award, covering 100,000 shares of the Company's restricted common stock, which vested immediately. We will also provide Mr. DesRosiers annual cash compensation of thirty thousand dollars (\$30,000) to be paid in quarterly installments on the last day of each quarter. Mr. DesRosiers will also receive options to purchase 25,000 shares of restricted common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. The exercise life of options shall be five (5) years from the date of grant or ninety (90) days from date of separation, whichever is less.
- (3) Mr. Zender was appointed to the Board effective June 1, 2014. As of the effective date of his directorship, Mr. Zender received a stock award, covering 75,000 shares of our restricted common stock, which vested immediately. We will also provide Mr. Zender annual cash compensation of thirty thousand dollars (\$30,000) to be paid in quarterly installments on the last day of each quarter. Mr. Zender will also receive options to purchase 25,000 shares of restricted common stock, granted quarterly and vested immediately, with a strike price equal to the closing price on the last day of the previous quarter. The exercise life of options shall be five (5) years from the date of grant or ninety (90) days from date of separation, whichever is less.
- (4) On March 30, 2015, Mr. Waters was appointed to the Board, effective April 1, 2015. As of the effective date of his directorship, Mr. Waters received a stock award, covering 75,000 shares of our restricted common stock, which will vest immediately. We will also provide Mr. Waters annual cash compensation of thirty thousand dollars (\$30,000) to be paid in quarterly installments on the last day of each quarter. Mr. Waters will also receive options to purchase 25,000 shares of restricted common stock, granted quarterly and vesting immediately, with a strike price equal to the closing price on the last day of the previous quarter. The exercise life of options shall be five (5) years from the date of grant or ninety (90) days from date of separation, whichever is less.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 30, 2016, the beneficial ownership of our common stock by each executive officer and director, by each person known by us to beneficially own more than 5% of the our common stock and by the executive officers and directors as a group. Unless otherwise indicated, the named persons possess sole voting and investment power with respect to the shares listed (except to the extent such authority is shared with spouses under applicable law). The percentages are based upon 39,315,591 shares outstanding as of March 30, 2016, except for certain parties who hold stock options and warrants that are presently exercisable or exercisable within 60 days, whose percentages are based upon the sum of shares outstanding as of March 30, 2016 plus the number of shares subject to stock options and warrants that were presently exercisable or exercisable within 60 days held by them, or which may be converted into Common Stock as indicated in the following notes.

Name of beneficial owner	Amount of beneficial ownership	Percent of class	
Triangulum Partners, LLC <sup>(1)</sup>	23,666,667	59.39	%
Gary A. Vecchiarelli, Chief Financial Officer <sup>(2)</sup>	518,710	1.31	%
Norm DesRosiers, Director <sup>(3)</sup>	283,333	0.72	%
William A. Zender, Director <sup>(4)</sup>	250,000	0.63	%
Bryan Waters, Director <sup>(5)</sup>	150,000	0.38	%
Total of All Directors and Executive Officers (5 persons):	24,868,710	62.43	%
More Than 5% beneficial owners:	None.		

- (1) Mr. Saucier is the Manager of Triangulum Partners, LLC. In that capacity, he is able to direct voting and investment decisions regarding the entity's shares of common stock. Mr. Saucier owns no shares directly. Duplicate entries have been omitted.
- (2) Mr. Vecchiarelli holds 100,000 options which are either exercisable at March 30, 2016 or exercisable within 60 days.
- (3) Mr. DesRosiers holds 183,333 options which are either exercisable at March 30, 2016 or exercisable within 60 days.
- (4) Mr. Zender holds 175,000 options which are either exercisable at March 30, 2016 or exercisable within 60 days.
- (5) Mr. Waters holds 75,000 options which are either exercisable at March 30, 2016 or exercisable within 60 days.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Except as set forth below, none of our directors or executive officers, nor any proposed nominee for election as a director, nor any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to all of our outstanding shares, nor any members of the immediate family (including spouse, parents, children, siblings, and in-laws) of any of the foregoing persons has any material interest, direct or indirect, in any transaction over the last two years or in any presently proposed transaction which, in either case, has or will materially affect us:

- (1) Through April 2014, we leased our corporate offices at 6980 O'Bannon Drive, Las Vegas, Nevada from a party related to the wife of our CEO.
- (2) Through August 2015, we had a note receivable from a party related to our CEO.



(3) We have a payable to a party related to our CEO.

Please see Item 8 Related Party Footnote, for more details regarding the aforementioned related party transactions.

We are not a “listed issuer” within the meaning of Item 407 of Regulation S-K and there are no applicable listing standards for determining the independence of our directors. Applying the definition of independence set forth in Rule 4200(a)(15) of The Nasdaq Stock Market, Inc., we do not have any independent directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Below is the table of Audit Fees billed by our auditor in connection with the audit of our annual financial statements for the years ended:

Fee type	2015	2014
Audit fees	\$59,957	\$39,600
Audit-related fees	—	4,300
Tax fees	—	—
Total fees	\$59,957	\$43,900

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) Financial Statements and Schedules

The following financial statements and schedules listed below are included in this Form 10-K.

Financial Statements (See Item 8)

(b) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation <sup>(1)</sup>
3.2	Amended and Restated Bylaws <sup>(1)</sup>
10.1	Lease agreement with Abyss Group, LLC for 6980 O'Bannon Drive (related party) <sup>(2)</sup>
10.2	Amendment to lease agreement with Abyss Group, LLC for 6980 O'Bannon Drive (related party) <sup>(2)</sup>
10.3	Exclusive Operating and License Agreement with TableMAX Gaming, Inc. <sup>(3)</sup>
10.4	Asset Purchase Agreement with Prime Table Games, LLC <sup>(4)</sup>
10.5	Prime Table Games Promissory Note and Security Agreement - US <sup>(4)</sup>
10.6	Prime Table Games Promissory Note and Security Agreement - UK <sup>(4)</sup>
10.7	Employment agreement with Gary A. Vecchiarelli, Chief Financial Officer <sup>(5)</sup>
10.8	Board of Directors Service Agreement with Norm DesRosiers, Director <sup>(6)</sup>
10.9	Lease agreement with SRC Spencer, LLC for 6767 Spencer Drive <sup>(7)</sup>
10.10	Board of Directors Service Agreement with William A. Zender, Director <sup>(8)</sup>
10.11	Board of Directors Service Agreement with Bryan W. Waters, Director <sup>(9)</sup>
10.12	Promissory Note with Robert Saucier, Chief Executive Officer <sup>(10)</sup>
10.13	2015 Employment Agreement with Gary A. Vecchiarelli, Chief Financial Officer <sup>(11)</sup>
23.1	Consent of KLJ & Associates, LLP, Certified Public Accountants
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), 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

<sup>(1)</sup>Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 13, 2009

<sup>(2)</sup>Incorporated by reference to the Form 10k, filed by the Company with the Securities and Exchange Commission on April 1, 2013

<sup>(3)</sup>Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 24, 2011

<sup>(4)</sup>Incorporated by reference, to the Form 8k, filed by the Company with the Securities and Exchange Commission on October 11, 2011

<sup>(5)</sup>Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on July 6, 2012

<sup>(6)</sup>

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

Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 3, 2014

(7) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on February 27, 2014

(8) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on April 2, 2014

(9) Incorporated by reference to the Form 10k, filed by the Company with the Securities and Exchange Commission on March 31, 2015

(10) Incorporated by reference to the Form 8k, filed by the Company with the Securities and Exchange Commission on October 29, 2015

(11) Incorporated by reference to the Form 10q, filed by the Company with the Securities and Exchange Commission on November 16, 2015

SIGNATURES

In accordance with Section 13 or 15(d) 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: March 30, 2016

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

Date: March 30, 2016

By: /s/ GARY A. VECCHIARELLI  
 Gary A. Vecchiarelli  
 Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ ROBERT B. SAUCIER Robert B. Saucier	Chief Executive Officer (Principal Executive Officer), Chairman of the Board of Directors	March 30, 2016
/s/ GARY A. VECCHIARELLI Gary A. Vecchiarelli	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2016
/s/ NORM DESROSIERS Norm DesRosiers	Director	March 30, 2016
/s/ WILLIAM A. ZENDER William A. Zender	Director	March 30, 2016
	/s/ BRYAN WATERS    Director Bryan Waters	March 30, 2016