

Galaxy Gaming, Inc.
Form 10-Q
August 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from _____ to _____

Commission File Number: 000-30653

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

Nevada
(State or other jurisdiction of incorporation or
organization)

20-8143439
(IRS Employer Identification No.)

6980 O'Bannon Drive, Las Vegas, Nevada 89117
(Address of principal executive offices)

702-939-3254
(Registrant's telephone number)

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

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

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 34,524,758 common shares as August 9, 2010.

Table of Contents

TABLE OF
CONTENTS

Page

PART I – FINANCIAL
INFORMATION

<u>Item 1:</u>	<u>Financial Statements</u>	<u>3</u>
<u>Item 2:</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>4</u>
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>9</u>
<u>Item 4:</u>	<u>Controls and Procedures</u>	<u>9</u>

PART II – OTHER
INFORMATION

<u>Item 1:</u>	<u>Legal Proceedings</u>	<u>10</u>
<u>Item 1A:</u>	<u>Risk Factors</u>	<u>10</u>
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>10</u>
<u>Item 3:</u>	<u>Defaults Upon Senior Securities</u>	<u>10</u>
<u>Item 4:</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>10</u>
<u>Item 5:</u>	<u>Other Information</u>	<u>10</u>
<u>Item 6:</u>	<u>Exhibits</u>	<u>10</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

<u>F-1</u>	<u>Consolidated Balance Sheets as of June 30, 2010 (unaudited) and December 31, 2009, (audited):</u>
<u>F-2</u>	<u>Consolidated Statements of Operations for the three months and six ended June 30, 2010 and 2009 (unaudited):</u>
<u>F-3</u>	<u>Consolidated Statements of Stockholders' Deficit as of June 30, 2010 (unaudited)</u>
<u>F-4</u>	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and, 2009 (unaudited):</u>
<u>F-5</u>	<u>Notes to Financial Statements:</u>

Table of Contents

GALAXY GAMING, INC.

BALANCE SHEETS

(UNAUDITED)

	June 30, 2010	December 31, 2009 Derived from audited financial statements
ASSETS		
Current Assets		
Cash	\$ 578,902	\$ 408,839
Accounts receivable		
- trade, net	355,691	372,560
Miscellaneous receivables	15,440	7,606
Prepaid expenses	38,762	43,314
Inventory	165,544	123,671
Accrued interest receivable	0	0
Note receivable - current portion	54,614	53,004
Total Current Assets	1,208,953	1,008,994
Property and Equipment, net	31,534	32,316
Other Assets		
Intellectual property, net	116,952	126,879
Intangible assets	366,000	150,000
Note receivable - long term	379,756	407,472
Other	14,481	0
Total Other Assets	877,189	684,351
TOTAL ASSETS	\$ 2,117,676	\$ 1,725,661
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 191,973	\$ 309,348
Accrued expenses and taxes	104,752	117,998
Accrued interest – related party	21,090	16,420
Deferred revenue	215,798	208,729
	90,000	0

Stock issuance payable		
Notes payable - related party	236,075	357,199
Notes payable - current portion	107,059	22,242
Total Current Liabilities	966,747	1,031,936
Long-term Debt		
Notes payable	1,175,016	1,172,392
TOTAL LIABILITIES	2,141,763	2,204,328
STOCKHOLDERS' DEFICIT		
Common stock	34,524	33,056
Additional paid in capital	1,467,306	944,774
Stock warrants	147,504	147,504
Stock subscription receivable	(16,637)	(25,967)
Accumulated deficit	(1,656,784)	(1,578,034)
TOTAL STOCKHOLDERS' DEFICIT	(24,087)	(478,667)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 2,117,676	\$ 1,725,661

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

Table of Contents

GALAXY GAMING, INC.

STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Gross Revenues	\$735,569	\$674,490	\$1,489,596	\$1,283,199
Cost of Goods Sold	10,768	64,440	58,860	88,252
Gross Profit	724,801	610,050	1,430,736	1,194,947
Selling, general and administrative	613,176	597,557	1,308,420	1,182,589
Research and development	66,873	40,482	154,780	81,538
Total costs and expenses	680,049	638,039	1,463,200	1,264,127
Net Operating Loss	44,752	(27,989)	(32,464)	(69,180)
Other Income (Expense)	(23,994)	(26,988)	(46,286)	(53,512)
Net Income/(Loss) before Income Taxes	20,758	(54,977)	(78,750)	(122,692)
Provision for Income Taxes	0	0	0	0
Net Income/(Loss) from Continuing Operations	\$20,758	\$(54,977)	\$(78,750)	\$(122,692)
Loss from Discontinued Operations	0	(99,950)	0	(99,950)
Net Income/(Loss)	\$20,758	\$(154,927)	\$(78,750)	\$(222,642)

Weighted average number of shares outstanding				
Basic	34,524,758	30,058,756	33,800,472	30,058,756
Fully Diluted	36,275,473	31,233,756	35,194,044	31,233,756
Net Loss per Share				
From Operations	\$0.00	\$(0.00)	) \$(0.00)	) \$(0.00)
From Discontinued Operations	\$-	\$(0.00)	) \$-	\$(0.00)
Fully Diluted	\$0.00	\$(0.00)	) \$(0.00)	) \$(0.01)

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

Table of Contents

GALAXY GAMING, INC.

STATEMENT OF STOCKHOLDERS' DEFICIT (UNAUDITED)

AS OF JUNE 30, 2010

	Common Shares	Stock Amount	Additional Paid in Capital	Stock Warrants	Subscription Receivable	Accumulated Deficit	Total
Beginning balance, January 1, 2009	10,000,000	\$ 10,000	\$ 125	-	-	\$(1,130,323)	\$(1,120,198)
Cancellation of old shares	(10,000,000)	(10,000)	10,000	-	-	-	-
Issuance of new shares upon confirmation of reorganization plan	29,000,006	29,000	71,000	-	-	-	100,000
Shares issued upon conversion of notes payable	1,042,989	1,043	237,523	-	-	-	238,566
Shares issued for services	1,101,583	1,101	66,132	-	-	-	67,233
Shares issued for payment of accounts payable	100,000	100	39,900	-	-	-	40,000
Share issued under private placement financing	1,722,858	1,723	601,277	-	-	-	603,000
Shares retired through transfer of property to former employee	(50,000)	(50)	-	-	-	-	(50)
Other shares issued post-confirmation	138,750	139	55,362	-	(25,967)	-	29,534
Share based compensation expense	-	-	10,959	-	-	-	10,959

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

Issuance of stock warrants	-	-	(147,504)	47,504	-	-	-
Net loss from continuing operations	-	-	-	-	-	(347,761)	(347,761)
Net loss from discontinued operations	-	-	-	-	-	(99,950)	(99,950)
Balance, December 31, 2009	33,056,186	33,056	944,774	147,504	(25,967)	(1,578,034)	(478,667)
Shares issued for payment of accounts payable	40,000	40	15,960	-	-	-	16,000
Share based compensation expense	-	-	4,000	-	-	-	4,000
Payment received on stock subscription receivable	-	-	-	-	4,666	-	4,666
Net loss from continuing operations	-	-	-	-	-	(99,508)	(99,508)
Balance, March 31, 2010	33,096,186	33,096	964,734	147,504	(21,301)	(1,677,542)	(553,509)
Share issued under private placement financing	1,428,572	1,428	498,572	-	-	-	500,000
Share based compensation expense	-	-	4,000	-	-	-	4,000
Payment received on stock subscription receivable	-	-	-	-	4,664	-	4,664
Net income from continuing	-	-	-	-	-	20,758	20,758

operations

Balance, June 30,								
2010	34,524,758	\$34,524	\$1,467,306	\$147,504	\$(16,637)	\$(1,656,784)	\$(24,087)	

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

F-3

Table of Contents

GALAXY GAMING, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2010

	2010	2009
Cash Flows from Operating Activities:		
Net loss from operations	\$ (78,750)	\$ (122,692)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation expense	7,291	7,873
Amortization expense	9,927	3,515
Provision for bad debts	18,000	886
Share-based compensation	8,000	-
Changes in Assets and Liabilities		
(Increase) decrease in accounts receivable	(1,131)	(100,940)
(Increase) decrease in miscellaneous receivable	(7,834)	-
Decrease (Increase) in prepaid expenses and taxes	4,552	(10,234)
(Increase) in Inventory	(41,873)	(124,123)
(Increase) in accrued interest receivable	-	(3,767)
(Decrease) Increase in accounts payable	(101,375)	204,183
(Decrease) in accrued expenses and taxes	(13,246)	(48,740)
(Decrease) in due to employee	-	(23,954)
Increase in accrued interest – related party	4,670	19,038
Increase in deferred revenue	7,069	8,348
Net Cash Used in Operating Activities	(184,700)	(190,607)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(6,509)	-
Increase in other assets	(14,481)	-
Payments received on note receivable	26,106	21,827
Net Cash Provided by Investing Activities	5,116	21,827
Cash Flows from Financing Activities:		
	-	200,000

Proceeds from issuance of convertible notes		
Payments on notes payable – related party	(121,124)	-
Collection of stock subscription receivable	9,330	-
Payments on note payable	(38,559)	(10,261)
Proceeds from issuance of common stock	500,000	70,000
Net Cash Provided by Financing Activities	349,647	259,739
Net Increase in Cash and Cash Equivalents	170,063	90,959
Cash and Cash Equivalents – Beginning of Year	408,839	25,885
Cash and Cash Equivalents – End of Year	\$ 578,902	\$ 116,844
Supplemental Cash Flow Information:		
Cash paid for interest	\$ 55,454	\$ 49,407
Cash paid for income taxes	\$ -	\$ -
Non-Cash Investing and Financing Activities:		
Intangible assets acquired through the issuance of notes payable and stock issuance payable	216,000	-

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

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1: Nature of Operations

On February 10, 2009, Secured Diversified Investment, Ltd. ("SDI") acquired all of the issued and outstanding stock of Galaxy Gaming, Inc. ("Galaxy Gaming") pursuant to the terms of a Share Exchange Agreement. Following the closing of the Share Exchange Agreement, SDI discontinued all prior operations and focused exclusively on the business and operations of its wholly-owned subsidiary, Galaxy Gaming. Galaxy Gaming was incorporated in the State of Nevada on December 29, 2006 and acquired the business operations of one or more predecessor companies using the "Galaxy Gaming" moniker beginning with Galaxy Gaming Corporation in 1997.

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

On January 1, 2007, Galaxy Gaming, LLC (the "LLC"), which was organized as a Nevada limited liability company on September 27, 2000, entered into several agreements with the newly formed Galaxy Gaming. Pursuant to these agreements, the LLC sold selected assets, such as inventory and fixed assets, to Galaxy Gaming. On December 31, 2007, Galaxy Gaming acquired, through an asset purchase agreement, the LLC'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. Galaxy Gaming also acquired the existing client base from the LLC.

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

Note 2: Significant Accounting Policies

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

Basis of Presentation

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Form 10-K filed with the SEC as of and for the period ended December 31, 2009. In the opinion of management, all adjustments necessary in order for the financial statements to be not misleading have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Basis of Accounting

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

F-5

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 2: Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers cash on hand, cash in banks, certificates of deposit, and other short-term securities with maturities of three months or less when purchased, as cash and cash equivalents.

The Company's bank accounts are deposited in insured institutions. The funds are insured up to \$250,000. At June 30, 2010 the Company's bank deposits exceeded the insured amounts. Management believes it has little risk related to the excess deposits.

Reclassifications

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

Inventory

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

Fair Value of Financial Instruments

The fair value of cash, accounts receivable and accounts 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 the Company could borrow funds with similar remaining maturities.

Property and Equipment

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

Intangible Assets

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

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

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

As more fully described in Note 18, the Company executed an Asset Purchase Agreement on April 15, 2010 with T&P Gaming, Inc., and its majority owners whereby the Company acquired the client installation base, intellectual property, territorial license and related inventory associated with the "Deuces Wild Hold'em Fold'em game ("Deuces Wild") and related "Random Wild" game.

The client installation base and intellectual property have finite lives and are being amortized using the straight-line method over their economic useful lives and analyzed for potential impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The territorial license has an infinite life.

F-6

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 2: Significant Accounting Policies (continued)

Revenue Recognition

Substantially all revenue is recognized when it is earned. Clients are typically invoiced one month in advance and the advance billings are carried as deferred revenue on the balance sheet. The monthly recurring invoices are based on executed agreements with each client. Total revenue from recurring royalties for the licensing of game content and other fees paid based upon the performance of our electronic platforms was \$1,433,941 and \$1,203,952 for the six months ended June 30, 2010 and 2009 respectively. Revenue from reimbursement from the sale of product was \$55,655 and \$79,247 for the six months ended June 30, 2010 and 2009 respectively.

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

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

Research and Development

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

Deferred Income Taxes

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

Earnings per Share

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

Management Estimates

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

Recently Issued Accounting Guidance

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

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 3: Note Receivable

The note receivable at June 30, 2010 and December 31, 2009 was as follows:

	2010	2009
Note receivable	\$ 434,370	\$ 460,476
Less:		
current portion	(54,614)	(53,004)
Long-term Note Receivable	\$ 379,756	\$ 407,472

The Company acquired, with an asset purchase agreement from the LLC, the note receivable stated above, as part of the purchase of the remaining intellectual property including patents, patent applications, trademarks, trademark applications, copyrights, know-how and trade secrets related to the casino gaming services including but not limited to games, side bets, inventions and ideas. The purchase was financed by a ten year note with a 6% fixed interest rate. Interest income associated with this note receivable was \$13,484 and \$14,932 for the six months ended June 30, 2010 and 2009 respectively.

Management evaluates collectability on a regular basis and will set up reserves for uncollectible amounts when it has determined that some or all of this receivable may be uncollectible. At June 30, 2010 management believed that 100% of the notes receivable principal and interest amounts are collectable.

Note 4: Prepaid Expenses

Prepaid expenses consist of the following as of June 30, 2010 and December 31, 2009:

	2010	2009
Prepaid marketing agreement	\$ 8,250	\$ 24,750
Prepaid IT system	16,894	3,326
Prepaid insurance	447	447
Prepaid legal	1,513	5,825
Prepaid trade show expense	9,304	5,054
Prepaid other	2,354	3,912
Total Prepaid	\$ 38,762	\$ 43,314

Expenses

Note 5: Property and Equipment

The Company owned property and equipment, recorded at cost, which consisted of the following at June 30, 2010 and December 31, 2009:

	2010	2009
Computer equipment	\$ 31,345	\$ 31,345
Furniture and fixtures	42,787	36,278
Office equipment	10,320	10,320
Subtotal	84,452	77,943
Less:		
Accumulated depreciation	(52,918)	(45,627)
Property and Equipment, net	\$ 31,534	\$ 32,316

Depreciation expense was \$7,291 and \$7,873 for the six months ended June 30, 2010 and 2009, respectively.

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 6: Accrued Expenses and Taxes

The Company recorded accrued expenses and taxes which consisted of the following at June 30, 2010 and December 31, 2009:

	2010	2009
Wages and related costs	\$ 66,676	\$ 78,141
Accrued expenses and taxes	38,076	39,857
Total Accrued Expenses and Taxes	\$ 104,752	\$ 117,998

Note 7: Long – term Debt

Long - term debt consists of the following at June 30, 2010 and December 31, 2009:

	2010	2009
Note payable to commercial bank	\$ 1,183,598	\$ 1,194,634
Notes payable asset acquisition	98,477	
	1,282,075	1,194,634
Less: Current portion	(107,059)	(22,242)
Total Long – term debt	\$ 1,175,016	\$ 1,172,392

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

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

Maturities of the Company's long-term debt as of June 30, 2010 are as follows:

2010	\$107,059
2011	39,099
2012	26,726
2013	28,773
2014	30,976
Thereafter	1,049,442
Total	
Long –	
term Debt	\$1,282,075

F-9

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 7: Long – term Debt (continued)

During 2009 the Company issued \$200,000 of convertible notes payable with an interest rate of 12%. The holders of the convertible notes chose to convert the notes, including accrued interest, into 1,042,989 shares of the Company's common stock. The notes and accrued interest totaling \$8,600 were convertible into common stock of the Company at the conversion rate of .20 cents per share. The holders of the notes were also granted stock purchase warrants allowing the holders to purchase up to an additional 175,000 shares of common stock at the price of \$.40 per share. The warrants expire April 2014. In lieu of cash exercising, the warrant the holders may elect to receive shares equal to the value of the warrant. The Company recorded interest expense in the amount of \$29,966 relating to the fair value of the warrants issued during the quarter ended December 31, 2009.

Note 8: Notes Payable - Related Party

The Company received working capital loans from the LLC, a related party, in 2008 and 2007. The loans bear 9% interest and are due 90 days after demand. The terms of the loan call for interest to be accrued on interest if payments are not made. Interest expense associated with these loans was \$13,498 and \$19,038 for the six months ended June 30, 2010 and 2009 respectively.

Note 9: Commitments and Contingencies

Operating Lease Obligation

The Company sub-leases its offices from the LLC, a related party. The lease expires August 31, 2010 and has an option for two six year renewals. As of June 30, 2010, the monthly minimum rental payment is \$18,565 and rent increases 3% every year on September 1st. Rent expense was \$84,824 and \$108,014 for the six months ended June 30, 2010 and 2009 respectively. Effective April 1, 2010 the LLC agreed to temporarily reduce the monthly rent to \$9,283 until the end of the initial lease period. Rent to be paid under this lease agreement including the first six year renewal option is summarized as follows:

Twelve months ended June 30, 2011	\$ 210,022
2012	235,466
2013	242,530
2014	249,806
2015	257,300
Thereafter	309,404
Total Lease Obligation	\$ 1,504,528

Legal Proceedings

In the ordinary course of business, we are involved in various legal proceedings and other matters that are complex in nature and have outcomes that are difficult to predict. We record accruals for such contingencies to the extent that we

conclude that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. Our assessment of each matter may change based in future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on our business operations, intellectual property, results of operations or financial position. Unless otherwise expressly stated we believe costs associated with litigation will not have a material impact on our financial position or liquidity, but may be material to the results of operations in any given period. We assume no obligation to update the status of pending litigation, except as may be required by applicable law, statute or regulation. For a complete description of the facts and circumstances surrounding material litigation to which we are a party, see our annual report on Form 10-K for the year ended December 31, 2009.

F-10

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 9: Commitments and Contingencies (continued)

Sherron Associates, Inc. – A judgment was issued in Washington State against the Company’s CEO and others in a manner unrelated to the Company in 1998. Sherron Associates, Inc., a Washington company, (“Sherron”) claimed to be the assignee of the judgment and disguised through a non-existent company it alleged to control, sued Mr. Saucier and various predecessor companies in the Superior Court of the State of Washington for the County of King in 2005. In 2008 the case was dismissed with prejudice and the defendants were awarded their legal costs. Later in 2008, Sherron filed suit against the Company claiming Sherron is assignee of the judgment and further claiming the Company is the alter-ego of its CEO and therefore responsible for payment of the judgment. The Company claims, among other defenses, that the judgment is invalid and even if it were valid, Sherron lacks standing in the matter because it is not the assignee. Separately, the Company’s CEO filed a motion in the Superior Court of the State of Washington for the County of Spokane seeking to quash the underlying judgment. The Court granted the motion and ruled the judgment vacated nunc pro tunc. Sherron filed a motion for reconsideration, which the Court denied and affirmed its previous decision in favor of the Company’s CEO. Subsequently, Sherron filed an appeal to the Court of Appeals of the State of Washington, Division III and the appellate court reversed the Superior Court’s ruling. The Company and its CEO believe the reversal improper and contrary to law and intend to continue to vigorously defend the case and seek all legal remedies available to them.

Also in 2008, Sherron filed suit against the Company in Nevada attempting to execute the judgment against certain intellectual property of the Company, claiming the property belongs personally to the Company’s CEO.

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

The Company paid legal fees directly to the law firm retained by its CEO. The law firm was employed in 2009 and 2010 for the express purpose of defending the Sherron litigation described above. In 2009, the CEO’s attorneys were successful in vacating the judgment which is the subject of the Sherron litigation. The Company believes this strategy to vacate the underlying judgment to be a faster, surer and less expensive method to defend the Sherron litigation, than other alternatives available to the Company. The Company has also agreed to continue to be responsible for these legal fees during any and all appeal processes. Total fees from this law firm charged to expense were \$12,797 for the six months ended June 30, 2010. The Company anticipates its legal fees pertaining to the Sherron litigation to increase in subsequent quarters until the matter has reached a final conclusion.

The Company and its CEO have jointly filed actions against Sherron in Nevada for various abuses of process in the litigation and their malicious attempts to improperly enforce a judgment.

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

Note 10: Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on periodic reviews of accounts receivable. As of June 30, 2010 and December 31, 2009, the Company had an allowance for doubtful accounts of \$38,712 and \$23,935, respectively.

Note 11: Capital Stock

The Company had 65,000,000 shares of \$.001 par value common stock and 10,000,000 shares of \$.001 par value preferred stock authorized as of June 30, 2010 and December 31, 2009. There were 34,524,758 common shares and -0- preferred shares issued and outstanding at June 30, 2010.

F-11

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 12: Related Party Transactions

The Company sub-leases its office space from the LLC, a related party, for \$18,565 per month. As mentioned in Note 9 the LLC agreed to temporarily reduce the monthly rent, effective April 1, 2010, to \$9,283. The reduction will continue until August 31, 2010.

The Company has agreed to pay the legal expenses incurred by its President's attorneys pertaining to its defense in the Sherron litigation, (Please see Note 9). Total fees from this law firm charged to expense were \$12,797 and \$0 for the six months ended June 30, 2010 and 2009 respectively.

Note 13: Other Income (Expenses)

Other income (expenses) of the Company consists of the following at June 30, 2010 and 2009:

	2010	2009
Interest income	\$ 13,484	\$ 14,932
Interest expense	(59,770)	(68,444)
Total Other Income (Expenses)	\$ (46,286)	\$ (53,512)

Note 14: Income Taxes

For the six months ended June 30, 2010 and year ended December 31, 2009, the Company incurred a net loss and, therefore, has no tax liability. The Company has a previous net operating loss carry-forward of \$1,035,000. The losses will be carried forward and can be used through the year 2028 to offset future taxable income up to a cumulative total of approximately \$1,135,000. The cumulative net operating loss carry-forward for income tax purposes may differ from the cumulative financial statement loss due to permanent differences and timing differences between book and tax reporting. Additionally, the Company has a foreign tax credit carry-forward of approximately \$153,000 that can be used in the future to offset federal income tax owed.

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

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

	2010	2009
Deferred tax asset attributable to:		
	\$ 378,700	\$ 351,900

Net operating loss carryover		
Valuation allowance	(378,700)	(351,900)
Net Deferred Tax Asset	\$ -	\$ -

F-12

Table of Contents

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 15: Cash Flow Disclosures

Non-Cash Investing and Financing Activities

During the year ended December 31, 2009 the Company issued 1,101,583 shares of stock for services to be performed in non-cash transactions pursuant to various service agreements. The cost of the service is being expensed over the term of the respective service agreement. The Company issued 100,000 shares of common stock in settlement of accounts payable. Convertible notes payable in the amount of \$200,000, plus accrued interest of \$8,600, were converted to equity resulting in the issuance of 1,042,989 common shares. The Company disposed of a real estate investment in a non-cash trade for 50,000 shares of common stock resulting in a loss of \$99,950 from discontinued operations during the quarter ended June 30, 2009.

Additionally, during the year ended December 31, 2009, the Company sold 101,250 shares of common stock to employees in exchange for various notes receivable totaling \$40,500. As of June 30, 2010 and December 31, 2009, \$16,637 and \$25,967 was still outstanding and has been recorded as a stock subscription receivable.

On April 1, 2010 the Company sold a total of 1,428,572 shares of common stock and 714,286 warrants for total cash proceeds of \$500,000. During the six months ended June 30, 2010 the Company issued 40,000 shares of common stock in settlement of accounts payable.

Note 16: Stock Warrants and Options

During the six months ended June 30, 2010, the Company issued 92,500 stock warrants to a board member. The warrants were valued at the fair market value of the services performed which resulted in an expense of \$8,000 for the six months ended June 30, 2010. As indicated in Note 15 the Company issued 714,286 warrants in connection with the sale of common stock.

Note 17: Bankruptcy confirmation and reverse merger – adoption of “fresh start” accounting

On February 10, 2009, Secured Diversified Investment, Ltd (“SDI”), a publicly held Nevada corporation, entered into a Share Exchange Agreement with the Company. In connection with the closing of the Share Exchange Agreement, SDI obtained 100% of the issued and outstanding shares of the Company, and the Company became a wholly-owned subsidiary (the “Share Exchange”). Also pursuant to the terms of SDI's Bankruptcy Plan (“the Plan”), all of SDI's outstanding debt obligations (other than administrative expenses related to chapter 11 case) have been discharged in exchange for its issuance of new common stock on a pro rata basis to its creditors.

Pursuant to the terms and conditions of the Share Exchange Agreement and the terms of the Plan, SDI issued 25,000,000 shares of common stock pro-rata to the former shareholders of the Company in exchange for obtaining ownership of 100% of the issued and outstanding shares of the Company and 4,000,006 shares of new common stock on a pro rata basis to its creditors in exchange for the discharge of the outstanding debts under chapter 11 of the U.S. Bankruptcy Code. All of SDI's pre-Share Exchange issued and outstanding equity interests were extinguished and rendered null and void. Immediately following these events there were 29,000,006 shares of common stock issued and outstanding.

Following confirmation of the Plan and the consummation of the Share Exchange, SDI pursued the business plan of Galaxy Gaming.

After the consummation of the Plan and Share Exchange, SDI continued to own a twenty-five percent interest in certain real property in Arizona. On or about April 17, 2009, SDI transferred this property to a former officer and director, in exchange for the former officer tendering fifty thousand shares of the common stock of SDI for cancellation.

F-13

Table of Contents

GALAXY GAMING, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 17: Bankruptcy confirmation and reverse merger – adoption of “fresh start” accounting (continued)

In accordance with generally accepted accounting principles, since the reorganization values of SDI’s assets were less than the total of its post-petition liabilities and allowed claims, and since the holders of existing SDI shares before the confirmation of the reorganization plan received less than 50 percent of the voting shares of the emerging entity, the Company has adopted fresh-start reporting. The total amount of debt forgiveness was \$683,284. The remaining asset of SDI was valued at \$100,000, the estimated fair value at the date of confirmation.

Note 18: Asset Acquisition

On April 15, 2010 the Company executed an Asset Purchase Agreement (“Agreement”) with T&P Gaming, Inc., and its majority owners (“Sellers”) whereby the Company acquired the client installation base, intellectual

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

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

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

The Sellers agreed to finance \$126,000 over eighteen months at an interest rate of 6% per annum. Monthly principal and interest payments of \$7,301 are required with the first payment paid upon closing. Additionally, the Company agreed to transfer to the Sellers \$90,000 worth of the Company’s common stock once certain obligations, as defined in the Agreement, are completed by the Sellers.

The Agreement also has a bonus performance provision, whereby the Company will pay to the Sellers \$50 per month, per table over 10 games placed in the United States. The bonus performance is not due until a game is in its fourth month of live play.

Note 19: Subsequent Events

On July 1, 2010 the Company commenced its Inter-Casino Jackpot Network program in Washington State as a result of authorization received from the Washington State Gambling Commission in March, 2010. The program was interrupted on July 21, 2010 when a staff member of the Commission instructed the Company to discontinue this program until an alternate program was submitted and approved. Subsequently, the Company has submitted two alternative proposals to the Commission for their approval. Until an alternative is approved, the Company may not operate its program in Washington. The Company expects one of its alternative programs to be approved. The Company is also seeking to commence this program in other jurisdictions.

The Company has analyzed its operations subsequent to June 30, 2010 through August 9, 2010, the date these financial statements were issued and has determined that it does not have any additional material subsequent events to disclose.

F-14

Table of Contents

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

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Company Overview and Plan of Operation

We are engaged in the business of developing proprietary casino table games. We receive fees in the form of recurring revenues for our content and services we provide to land-based, riverboat and cruise ship casinos in the United States and internationally. Currently, we have an installed base of our products on over 1,750 gaming tables. Casinos use our content and services 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. Our revenues are primarily derived from "Proprietary Table Games". We have also developed an advanced table game platforms known as the "Bonus Jackpot System." The Bonus Jackpot System serves as a vehicle to deploy additional Proprietary Table Games and provide us with added revenue streams via performance payments. We are also seeking to increase our revenues through interconnected systems related to gaming operations which we refer to as the Inter Casino Jackpot network.

Proprietary Table Games.

We develop and deliver proprietary titles that enhance our casino clients' table game operations. Our Games are grouped into two product types which include "Premium Games" as well as proprietary features added to public domain games such as poker, baccarat, pai gow poker and blackjack table games, also known as "Side Bets". Casinos use our proprietary table games in lieu of those games in the public domain (e.g. Blackjack, Craps, Roulette, etc.) because of their popularity with players and the increased profitability for casinos.

Our premium games are known as Emperor's Challenge Pai Gow Poker, Texas Shootout, Triple Attack Blackjack, Three Card Split and our newest game, Deuces Wild, a variation of the game Deuces Wild Hold'em Fold'em. On April 15, 2010, the Company executed an Asset Purchase Agreement with T&P Gaming, Inc., and its majority owners whereby the Company acquired the client installation base, intellectual property and related inventory associated with

Deuces Wild Hold'em Fold'em. The acquisition price was \$216,000. The Sellers agreed to finance \$126,000 over eighteen months at an interest rate of 6% per annum. Monthly principal and interest payments of \$7,301 are required with the first payment paid upon closing. Additionally, the Company agreed to transfer to the Sellers \$90,000 worth of the Company's common stock once certain obligations, as defined in the Agreement, are completed by the Sellers. The transaction was not accounted for as a business combination as the purchase price, pretax income and assets acquired tests did not exceed the 20% requirement.

Our side bets are known as Lucky Ladies, Suited Royals, Super Pairs, Lucky 8 Baccarat, 21 Magic, Bust Bonus, Emperor's Treasure, Triple Match, Pai Gow Insurance and Four Card Bonus.

Table of Contents

Bonus Jackpot System

We developed our Bonus Jackpot System to compete with our competitors' progressive jackpot systems. Early in its design, we decided to not simply emulate the standard progressive jackpot system, but instead to design, engineer and manufacture a system to further enhance the table game player's experience beyond their current experiences and likewise further improve the casino's profit from table games. We have committed a significant portion of our revenues to the research and development of this system. We have planned the development of our Bonus Jackpot System for at least the next several years and have labeled each major release after the name of a known galaxy. Our first version, known as the "Milky Way Series" was first installed into a casino in March, 2009. Early in 2010, we developed our "Andromeda Series" and have completed what we refer to as Andromeda Stage I and Andromeda Stage II. Both Andromeda Series have been submitted to various gaming regulators for approval. The Bonus Jackpot System allows us to place additional Proprietary Table Games and thereby increase our recurring revenues through performance payments. As such our strategy when deploying the Bonus Jackpot System is to seek reimbursement of our costs to build the system.

Strategy

We are proud of the products that we develop and market and believe we can have continued growth and expansion. To that end, we have devised and are implementing the following ongoing strategic plan:

Build our recurring revenue base.

Our products generate additional profit for our clients yet require an insignificant capital expenditure. Accordingly, we have demonstrated a 18% increase in recurring revenues compared to the same quarter last year. We expect continued growth in our recurring revenues through the development and/or acquisition of new products and game content. In February 2010 the Company announced the release of a new casino table game called Triple Attack Blackjack(TM). The game is a variation of the standard game of blackjack, but offers the player new strategic options, while still conforming to basic blackjack fundamentals.

Expand our distribution network.

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

Enhance Our Portfolio of Games through the Bonus Jackpot System

Competitor's games such as Caribbean Stud and Let it Ride benefitted from electronic enhancements. Previously, only our Bonus Blackjack game utilized electronics. We set out to overcome this disadvantage and initiated the development of our Bonus Jackpot System in 2008. In March 2009, we installed the first Bonus Jackpot System into a casino. We receive a fee from casinos based upon the amount of wagers placed by their players via the Bonus Jackpot System.

We continue to develop our Bonus Jackpot System. Beginning with our inaugural "Milky Way Series," we have since developed what we call the "Andromeda Series" which is currently planned for installation in 2010. We have also commenced engineering of the Bonus Jackpot System's next major release called the "Triangulum Series" which is currently scheduled for release in 2011. We intend to modify and adapt all of our Premium Games to benefit from the

Bonus Jackpot System. Additionally, we expect that all of our new Premium Game titles will include the Bonus Jackpot System component.

We expect each of these products to generate additional recurring revenues for us in 2010 and beyond.

Table of Contents

Inter-Casino Jackpot Network

We have identified an opportunity to offer gambling promotions and the financing of gambling promotions to our casino clients which in turn they would offer to their customers. Our planned Inter-Casino Jackpot Network, formerly known as the Manufacturer's Gambling Promotion, is designed to assist casino operators with the ability to offer increased incentives and promotions, including but not limited to substantial life-altering cash jackpots, which in turn, can potentially attract additional customers to their establishment. Competition among casinos is intense and although many casino operators can (and do) provide numerous promotions, most are either financially restrained from offering larger, more lucrative prizes and promotions or concerned about the effect the award of a large prize can have on the casino's bottom line for the reporting period.

We intend to collect a fee from the casino based upon their player's participation in the gambling promotion. The purpose of these gambling promotions is to stimulate play thereby increasing the profitability for the casino and for us. We expect the offering of our gambling promotion plan will commence and add revenues for us in 2010.

On July 1, 2010 the Company commenced its Inter-Casino Jackpot Network program in Washington State as a result of authorization received from the Washington State Gambling Commission in March, 2010. The program was interrupted on July 29, 2010 when a staff member of the Commission instructed the Company to discontinue this program until an alternate program was submitted and approved. Subsequently, the Company has submitted two alternative proposals to the Commission for their approval. Until an alternative is approved, the Company may not operate its program in Washington. The Company expects one of its alternative programs to be approved. The Company is also seeking to commence this program in other jurisdictions.

Maintain Profitability

Although we seek to take advantage of the current high demand of our products and in the process, rapidly expand our recurring revenues, our goal is to maintain profitability and closely guard our cash flow. Our plan is to monitor and adjust our expenses accordingly in order to meet these important objectives.

Build shareholder value.

Fundamentally, we will focus first and foremost on our company's financial performance both in terms of revenue growth, profitability and cash flow. While our successful performance is essential, we launched, in 2009, an Investor Relations / Public Relations campaign to build the Galaxy Gaming brand in the financial community. Furthermore, we maintain frequent and informative communication with our stakeholders.

Sources of Revenue

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

Financing

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

Table of Contents

Expected Changes in Number of Employees, Plant, and Equipment

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

Results of Operations for the Three Months Ended June 30, 2010

For the three months ended June 30, 2010 our continuing operations generated gross revenues of \$735,569, an increase of 9% from gross revenues of \$674,490 for the three months ended June 30, 2009. The increase in revenue was driven by increases in our recurring revenue from table game content and fees associated with the performance of our electronic game platform offset by a decline in sale or reimbursement of our manufactured equipment. The decrease in our installations of our Bonus Jackpot System resulted in a decrease of cost of goods sold from \$64,440 in the prior quarter to \$10,768 for the current quarter. Selling, general and administrative expenses for the quarter were \$613,176, an increase of 3% over the second quarter 2009 selling, general and administrative expenses of \$597,557. The increase was primarily due to increased payroll in sales and finance, and outside services offset by a decrease in legal fees and rent. Research and development expenses for the quarter were \$66,873, an increase of 65% over the second quarter 2009 research and development expenses of \$40,482. The increase was primarily due to increased payroll as the result of adding personnel to the department. Other expenses decreased from \$26,988 in 2009 to \$23,994 in 2010 due to decreased interest expense.

Net income from continuing operations for the three months ended June 30, 2010 was \$20,758, compared to a loss from continuing operations of \$54,977 for the three months ended June 30, 2009.

For the six months ended June 30, 2010 our continuing operations generated gross revenues of \$1,489,596, an increase of 16% from gross revenues of \$1,283,199 for the six months ended June 30, 2009. The increase in revenue was driven by increases in our recurring revenue from table game content and fees associated with the performance of our electronic game platform offset by a decline in sale or reimbursement of our manufactured equipment. The decrease in our installations of our Bonus Jackpot System resulted in a decrease of cost of goods sold from \$88,252 in the prior six months to \$58,860 for the year. Selling, general and administrative expenses for the six months were \$1,308,420, an increase of 11% over the prior year selling, general and administrative expenses of \$1,182,589. The increase was primarily due to increased payroll in sales and finance, marketing and outside services offset by a decrease in legal fees. Research and development expenses for the six months were \$154,780, an increase of 90% over the prior year research and development expenses of \$81,538. The increase was due to increased payroll as the result of adding personnel to the department. Other expenses decreased from \$53,512 in 2009 to \$46,286 in 2010 due to decreased interest expense.

Net loss from continuing operations for the six months ended June 30, 2010 was \$78,750, compared to a loss from continuing operations of \$122,692 for the six months ended June 30, 2009.

During the quarter ended June 30, 2009 we experienced a net loss from discontinued operations in the amount of \$99,950. This transaction represented a disposal of a real estate investment related to the former business of Secured Diversified Investment, Ltd. that remained after the confirmation of the Chapter 11 plan of reorganization of SDI.

Table of Contents

Liquidity and Capital Resources

As of June 30, 2010, we had total current assets of \$1,208,953 and total assets in the amount of \$2,117,676. Our total current liabilities as of June 30, 2010 were \$966,747. Our working capital increased from a deficit of \$22,942 at December 31, 2009 to \$242,206 at June 30, 2010. The increase in working capital was due to an increase in cash and inventory and a reduction in accounts payable.

At June 30, 2010 we do not have any available third-party lines or letters of credit. Furthermore we do not have any written or oral commitments from officers or shareholders to provide the Company with loans or advances to support our operations or fund potential acquisitions.

Galaxy's operating activities used \$184,700 in cash for the six months ended June 30, 2010 compared to \$190,607 of cash used for the six months ended June 30, 2009. The primary components of our negative operating cash flow for the six months ended June 30, 2010 were our net loss of \$78,750, increases in inventory of \$41,873 and a decrease in accounts payable of \$101,375 offset by non cash charges consisting of depreciation and amortization expenses, \$17,210; provision for bad debts, \$18,000; and share based compensation, \$8,000.

Cash flows generated by investing activities for the six months ended June 30, 2010 were \$5,116, consisting of \$6,509 in acquisition of property and equipment, increases in other assets of \$14,481 offset by \$26,106 in payments received on a note receivable. Cash generated by financing activities during the six months ended June 30, 2010 were \$349,647 consisting of proceeds from the sale of common stock; in the amount of \$500,000, payments received on stock subscription receivable totaling \$9,330 offset by \$121,124 in payments on notes payable-related party and \$38,559 in payments on notes payable.

We intend to fund our continuing operations through increased sales. Additionally the issuance of debt or equity financing arrangements may be required to fund expenditures or other cash requirements. On April 1, 2010 the Company sold a total of 1,428,572 shares of common stock and 714,286 warrants for total cash proceeds of \$500,000.

Despite this funding there is no assurance that we will be successful in raising additional funding, if necessary. If we are not able to secure additional funding, the implementation of our business plan could be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. In addition, we may incur higher capital expenditures in the future to expand our operations. We may from time to time acquire products and businesses complementary to our business. As a public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing, capital or to acquire other businesses that can improve our performance and growth. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

Critical Accounting Policies

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

Recently Issued Accounting Pronouncements

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

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4T. Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2009. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and our former Interim Chief Financial Officer, Robert Saucier. Based upon that evaluation, our Chief Executive Officer and former Interim Chief Financial Officer concluded that, as of September 30, 2009, our disclosure controls and procedures are effective. There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2010.

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

Limitations on the Effectiveness of Internal Controls

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

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

On April 1, 2010 the Company sold a total of 1,428,572 shares of common stock and 714,286 warrants for total cash proceeds of \$500,000. The offering and sale of the shares was exempt from registration under Rule 506 of Regulation D. The shares were offered exclusively to accredited and/or sophisticated investors and there was no general solicitation or advertising.

Item 3. Defaults upon Senior Securities

None

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

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended June 30, 2010.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Description of Exhibit

Number

31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Galaxy Gaming, Inc

Date: August 9, 2010

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

Galaxy Gaming, Inc

Date: August 9, 2010

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