

Galaxy Gaming, Inc.  
Form 10-Q  
May 15, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 000-30653

Galaxy Gaming, Inc.

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period

for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act.

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
39,365,591 common shares as of May 15, 2017.

GALAXY GAMING, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2017

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

<u>Condensed Balance Sheets as of March 31, 2017 (unaudited), and December 31, 2016</u>	4
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## GALAXY GAMING, INC.

## CONDENSED BALANCE SHEETS

	March 31,	December 31,
	2017	2016
ASSETS		
Current assets:	(unaudited)	
Cash and cash equivalents	\$2,920,154	\$2,304,761
Restricted cash	115,513	84,577
Accounts receivable, net of allowance for bad debts of \$31,125	1,996,542	2,137,245
Inventory, net	465,990	427,105
Prepaid expense and other	161,082	194,747
Total current assets	5,659,281	5,148,435
Property and equipment, net	327,600	356,253
Products leased and held for lease, net	215,794	212,131
Goodwill and other intangible assets, net	12,559,573	12,846,019
Deferred tax assets, net	367,057	367,057
Other assets, net	23,000	82,050
Total assets	\$19,152,305	\$19,011,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$394,009	\$461,913
Accrued expenses	1,209,057	1,109,428
Income taxes payable	864,405	786,430
Deferred revenue	954,923	1,014,731
Jackpot liabilities	125,002	90,960
Deferred rent, current portion	17,124	14,938
Current portion of long-term debt and capital lease obligations	1,219,022	1,230,285
Total current liabilities	4,783,542	4,708,685
Deferred rent, net	32,877	37,704
Capital lease obligations, net	38,944	46,978
Common stock warrant liability	990,116	923,616
Long-term debt, net	8,433,911	8,669,151
Total liabilities	14,279,390	14,386,134
Commitments and Contingencies (See Note 10)		
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, \$0.001 par value;		
0 shares issued and outstanding, respectively	—	—
Common stock, 65,000,000 shares authorized; \$0.001 par value;		
39,365,591 and 39,315,591 shares issued and outstanding, respectively	39,366	39,316
Additional paid-in capital	3,194,260	3,109,473
Accumulated earnings	1,639,289	1,477,022
Total stockholders' equity	4,872,915	4,625,811

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Total liabilities and stockholders' equity	\$19,152,305	\$19,011,945
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The accompanying notes are an integral part of the financial statements.

## GALAXY GAMING, INC.

## CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Revenue:		(restated)
Product leases and royalties	\$3,473,841	\$2,981,820
Product sales and service	1,455	2,279
Total revenue	3,475,296	2,984,099
Costs and expenses:		
Cost of ancillary products and assembled components	20,882	21,640
Selling, general and administrative	2,086,169	1,633,335
Research and development	138,047	79,342
Depreciation and amortization	436,085	415,974
Share-based compensation	49,837	20,471
Total costs and expenses	2,731,020	2,170,762
Income from operations	744,276	813,337
Other income (expense):		
Interest expense	(445,332 )	(258,195 )
Foreign currency exchange gains	7,797	112,562
Change in estimated fair value of warrant liability	(66,500 )	—
Interest income	—	56
Total other expense	(504,035 )	(145,577 )
Income before provision for income taxes	240,241	667,760
Provision for income taxes	(77,974 )	(239,925 )
Net income	\$162,267	\$427,835
Net income per share, basic and diluted	\$0.00	\$0.01
Weighted-average shares outstanding:		
Basic	39,305,591	39,351,147
Diluted	40,817,678	39,455,591

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

## GALAXY GAMING, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Cash flows from operating activities:		(restated)
Net income	\$ 162,267	\$ 427,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	436,085	415,974
Amortization of debt issuance costs and debt discount	73,729	52,158
Change in estimated fair value of warrant liability	66,500	—
Share-based compensation	49,837	20,471
Changes in operating assets and liabilities:		
(Increase) decrease in restricted cash	(30,936 )	51,044
Decrease in accounts receivable	140,704	78,239
Increase in inventory	(63,017 )	(54,958 )
Decrease in prepaid expenses and other current assets	33,665	52,651
Decrease in accounts payable	(67,905 )	(111,239 )
Increase in income tax payable	74,816	222,903
Increase in accrued expenses	99,629	56,054
(Decrease) increase in deferred revenue	(59,808 )	96,293
Increase (decrease) in jackpot liabilities	34,042	(22,470 )
Decrease in deferred rent	(2,641 )	(457 )
Net cash provided by operating activities	946,967	1,284,498
Cash flows from investing activities:		
Acquisition of intangible assets	(27,470 )	—
Acquisition of property and equipment	(13,997 )	(11,314 )
Net cash used in investing activities	(41,467 )	(11,314 )
Cash flows from financing activities:		
Proceeds from stock option exercises	35,000	—
Debt issuance costs	(17,091 )	—
Principal payments on capital lease obligations	(7,611 )	(17,441 )
Principal payments on long-term debt	(303,563 )	(746,419 )
Net cash used in financing activities	(293,266 )	(763,860 )
Effect of exchange rate changes on cash	3,159	(1,962 )
Net increase in cash and cash equivalents	615,393	507,362
Cash and cash equivalents – beginning of period	2,304,761	570,623
Cash and cash equivalents – end of period		