

Galaxy Gaming, Inc.
Form 10-Q
November 04, 2009

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 September 30, 2009

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

For the transition period _____ to _____

Commission File Number: 000-30653

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

Nevada
(State or other jurisdiction of
incorporation or organization)

20-8143439
(IRS Employer Identification No.)

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

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

Secured Diversified Investment, Ltd

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

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

Yes No

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 32,066,185 common shares as of November 2, 2009.

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
<u>Item 1:</u> <u>Financial Statements</u>	3
<u>Item 2:</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	4
<u>Item 3:</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	8
<u>Item 4T:</u> <u>Controls and Procedures</u>	8
PART II – OTHER INFORMATION	
<u>Item 1:</u> <u>Legal Proceedings</u>	9
<u>Item 1A:</u> <u>Risk Factors</u>	9
<u>Item 2:</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	9
<u>Item 3:</u> <u>Defaults Upon Senior Securities</u>	9
<u>Item 4:</u> <u>Submission of Matters to a Vote of Security Holders</u>	9
<u>Item 5:</u> <u>Other Information</u>	9
<u>Item 6:</u> <u>Exhibits</u>	9

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- | | |
|-----|---|
| F-1 | Consolidated Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008, (audited); |
| F-2 | Consolidated Statements of Operations for the three months and nine months ended September 30, 2009 and September 30, 2008 (unaudited); |
| F-3 | Consolidated Statements of Stockholders' Deficit as of September 30, 2009 (unaudited) |
| F-4 | Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and September 30, 2008 (unaudited); |
| F-5 | Notes to Financial Statements; |

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2009 are not necessarily indicative of the results that can be expected for the full year.

Table of ContentsGALAXY GAMING, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (unaudited)	December 31, 2008 (audited)
ASSETS		
Current Assets		
Cash	\$ 9,363	\$ 25,885
Accounts receivable-trade, net	431,791	234,315
Miscellaneous receivables	45,184	12,545
Prepaid expenses	180,464	19,773
Inventory	133,877	46,177
Note receivable-current portion	56,428	69,617
Current assets of discontinued operations	-	12,279
Total Current Assets	857,107	420,591
Property and Equipment, net	34,016	23,389
Real Estate Investment-discontinued operations	-	100,000
Other Assets		
Intellectual property, net	128,641	133,919
Intangible assets	150,000	150,000
Note receivable-long term	418,450	435,744
Total Other Assets	697,091	719,663
TOTAL ASSETS	\$ 1,588,214	\$ 1,263,643

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

Accounts payable	\$ 335,833	\$ 146,336
Accrued expenses and taxes	156,266	266,519
Deferred revenue	203,592	196,579
Due to employee	-	31,639
Notes payable-related party	415,295	415,195
Convertible notes payable	50,000	-
Current portion long-term debt	21,836	23,014
Current liabilities-discontinued operations	-	638,284
Total Current Liabilities	1,182,822	1,717,566

Long-Term Debt

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

Note payable	1,178,166	1,192,280
Notes payable-discontinued operations	-	45,000
Total Long-Term Debt	1,178,166	1,237,280
TOTAL LIABILITIES	2,360,988	2,954,846
STOCKHOLDERS' DEFICIT		
Common stock	31,059	163
Unissued shares	-	5,830
Additional paid in capital	570,741	8,818,647
Accumulated deficit Galaxy Gaming, Inc	(1,374,574)	(1,120,198)
Accumulated deficit-discontinued operations	-	(9,395,645)
TOTAL STOCKHOLDERS' DEFICIT	(772,774)	(1,691,203)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,588,214	\$ 1,263,643

The accompanying notes are an integral part of this financial statement

Table of Contents

GALAXY GAMING, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For The Three Months Ended		For The Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Gross revenues	\$ 782,493	\$ 533,375	\$ 2,065,691	\$ 1,507,212
Cost of Goods Sold	91,158	21,269	179,410	96,852
Gross Profit	691,335	512,106	1,886,281	1,410,360
Operating Expenses	681,865	568,576	1,946,219	1,761,812
Net Operating Profit (Loss)	9,470	(56,470)	(59,938)	(351,452)
Other Income (Expense)	(41,204)	(26,203)	(94,488)	(65,807)
Net Loss Before Income taxes	(31,734)	(82,673)	(154,426)	(417,259)
Provision for Income Taxes	-	-	-	-
Net Loss from Continuing Operations	(31,734)	(82,673)	(154,426)	(417,259)
Loss from Discontinued Operations	-	(30,930)	(99,950)	(319,984)
Net Loss	\$ (31,734)	\$ (113,603)	\$ (254,376)	\$ (737,243)
Weighted average number of shares outstanding				
Basic	30,559,269	162,862	30,029,894	162,862
Fully Diluted	31,381,144	162,862	30,264,269	162,862
Loss Per Share				
From Operations	\$ -	\$ (0.51)	\$ (0.01)	\$ (2.56)
From Discontinued Operations	\$ -	\$ (0.19)	\$ -	\$ (1.96)
Fully Diluted	\$ -	\$ (0.70)	\$ (0.01)	\$ (3.82)

The accompanying notes are an integral part of this financial statement

F-2

GALAXY GAMING, INC
CONSOLIDATED STATEMENT OF STOCKHOLDER'S DEFICIT
AS OF SEPTEMBER 30, 2009

Table of Contents

	Common Shares	Stock Amount	Additional Paid-In Capital	Unissued Shares	Accumulated Deficit	Total
Beginning Balance January 1, 2009	162,862	\$ 163	\$ 8,818,647	\$ 5,830	\$(9,395,645)	\$(571,005)
Adjustment-to record deficit of Galaxy Gaming, Inc					(1,120,198)	(1,120,198)
Cancellation of old shares	(162,862)	(163)	(8,818,647)	(5,830)	9,395,645	571,005
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	786,739	786	156,564			157,350
Shares issued for service contract	870,000	870	173,130			174,000
Shares issued under private placement financing	214,286	214	74,786			75,000
Other shares issued post-confirmation	188,750	189	95,261			95,450
Net loss from continuing operations					(154,426)	(154,426)

Net loss from discontinued operations					(99,950)	(99,950)
Balance September 30, 2009	31,059,781	\$31,059	\$570,741	\$-	\$(1,374,574)	\$(772,774)

The accompanying notes are integral part of this financial statement

F-3

Table of Contents

GALAXY GAMING, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities of continuing operations		
Net income(loss) from continuing operations	\$ (154,426)	\$ (417,259)
Adjustments to reconcile net income(loss) to Net cash used in operating activities		
Depreciation expense	11,969	12,252
Amortization expense	5,278	5,656
Provision for bad debts	22,760	22,786
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(252,875)	(29,155)
(Increase) decrease in prepaid expenses	(160,691)	1,343
(Increase) decrease in inventory	(87,700)	(4,617)
Increase in accounts payable	229,497	138,532
Increase (decrease) in accrued expenses	(141,892)	31,782
Increase in accrued interest-related party	100	22,749
Increase in deferred revenue	7,013	33,586
Net Cash Provided by (Used in) Operating activities	(520,967)	(182,345)
Cash Flows From Investing Activities		
Acquisition of property and equipment	(22,596)	(2,593)
Purchase of intangible assets	-	(7,777)
Payment received on note receivable	30,483	41,433
Net Cash From Investing Activities	7,887	31,063
Cash Flows From Financing Activities		
Proceeds from issuance of convertible notes	200,000	-
Proceeds from issuance of common stock	311,850	-
Proceeds from notes payable-related party	-	183,578
Payments on notes payable	(15,292)	(15,029)
Net Cash From Financing Activities	496,558	168,549
Net Increase (Decrease) in Cash	(16,522)	17,267
Cash at Beginning of Period	25,885	2,635
Cash at End of Period	\$ 9,363	\$ 19,902
Supplemental Cash Flow Information		
Cash paid for interest	\$ 107,731	\$ 67,918
Cash paid for income taxes	\$ -	\$ -
Non-cash investing and financing activities		
Conversion of notes payable to equity	\$ 150,000	\$ -

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

Disposal of real estate investment for common stock	\$ 99,950	\$ -
---	-----------	------

The accompanying notes are an integral part of this financial statement

F-4

Table of Contents

GALAXY GAMING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009

Note 1: Nature of Operations

Unless the context indicates otherwise, references to “we”, “us”, “our”, or the “Company”, refer to Galaxy Gaming, Inc. On February 10, 2009, Secured Diversified Investment, Ltd. (“SDI”) acquired all of the issued and outstanding stock of Galaxy Gaming, Inc., a privately held Nevada corporation (“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 continued the business operations of one or more predecessor companies using the “Galaxy Gaming” moniker beginning with Galaxy Gaming Corporation in 1997. The Company’s headquarters are located at 6980 O’Bannon Drive, Las Vegas, Nevada.

In August of 2009 upon filing of articles of merger in Nevada, Galaxy Gaming, Inc. was merged into SDI. At the effective date the separate legal existence of Galaxy Gaming, Inc. 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.

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, Inc. Pursuant to these agreements, the LLC sold selected assets, such as inventory and fixed assets, to the Company. On December 31, 2007, the Company 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.

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 bonus systems associated with these games are typically protected by patents, trademarks and/or copyrights. The Company markets its products and licenses its 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 casinos for the licensing of the Company’s 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 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.

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.

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.

Table of Contents

GALAXY GAMING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009

Note 2: Significant Accounting Policies (continued)

Property and Equipment

The capital assets are being depreciated over their estimated useful lives using the straight-line method of depreciation for book purposes. On January 1, 2007, the Company acquired the majority of its capital assets at the lower of cost or market from the LLC.

Intangible Assets

Effective December 31, 2007, 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.

During the year ended December 31, 2008, the Company entered into an agreement to purchase 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.

Revenue Recognition

Revenue is recognized when it is earned. Clients are invoiced in advance and the advance billings are carried as deferred revenue on the balance sheet. The monthly recurring invoices are based on signed agreements with each client.

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.

Basis of Presentation

Certain prior year amounts in the financial statements have been reclassified to conform to the September 30, 2009 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, 2008. In the opinion of management, all adjustments necessary in order for the financial statements to be fairly stated 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.

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.

F-6

Table of Contents

GALAXY GAMING, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2009

Note 3: Note Receivable

The note receivable at September 30, 2009 and December 31, 2008 was as follows:

	2009	2008
Note receivable	\$ 474,878	\$ 505,361
Less: Current portion	56,428	69,617
Long-term note receivable	\$ 418,450	\$ 435,744

Effective December 31, 2007, 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.

Management evaluates the note on a regular basis and will set up reserves for uncollectible amounts if it has determines that some or all of this receivable may be uncollectible. At September 30, 2009 and December 31, 2008, management believed that 100% of the notes receivable principal and interest amounts are collectable.

Note 4: 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. At September 30, 2009 and December 31, 2008, the Company had \$133,877 and \$46,177 in inventory, respectively.

Note 5: Prepaid Expenses and Taxes

Prepaid expenses and taxes consist of the following as of September 30, 2009 and December 31, 2008:

	2009	2008
Refundable Canadian withholding	\$ 0	\$ 0
Prepaid IT system	6,527	5,772
Prepaid supply inventory	0	10,000

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

Prepaid insurance	431	431
Prepaid legal	3,700	0
Prepaid other	169,806	3,570
Total Prepaid Expenses and Taxes	\$ 180,464	\$ 19,773

Although we continue to pursue a refund, during the year ended December 31, 2008, the Company determined that the Canadian withholding tax may not be refunded. The remaining balance was written off at December 31, 2008. The amounts paid of approximately \$120,000 will be available for use in the future as a foreign tax credit to offset U.S. federal income tax owed.

Table of Contents

GALAXY GAMING, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2009

Note 6: Property and Equipment

The Company owned property and equipment, recorded at cost, which consisted of the following at September 30, 2009 and December 31, 2008:

	2009	2008
Computer equipment	\$ 28,535	\$ 22,768
Furniture and fixtures	36,716	19,888
Office equipment	10,320	10,320
Subtotal	75,571	52,976
Less:		
Accumulated depreciation	(41,555)	(29,587)
Property and Equipment, net	\$ 34,016	\$ 23,389

The Company acquired the majority of the property and equipment in the purchase agreement between the Company and the LLC on January 1, 2007. The Company disposed of \$150 of property and equipment during 2008 for a total loss of \$92. Depreciation expense was \$11,969 for the nine months ended September 30, 2009 and \$12,252 for the nine months ended September 30, 2008, respectively.

Note 7: Accrued Expenses and Taxes

The Company recorded accrued expenses and taxes which consisted of the following at September 30, 2009 and December 31, 2008:

	2009	2008
Wages and related costs	\$ 45,517	\$ 28,166
Accrued expenses and taxes	76,787	86,313
Accrued intangible asset costs	25,000	137,500
Accrued royalties – third party	8,962	14,540

Total Accrued Expenses and Taxes	\$ 156,266	\$ 266,519
---	------------	------------

The Company entered into an agreement to purchase back a sales territory for \$150,000 during the year ended 2008. The remaining balance of \$25,000 at September 30, 2009 is expected to be paid during 2009.

Note 8: Long – term Debt

Long - term debt from continuing operations consists of the following at September 30, 2009 and December 31, 2008:

	2009	2008
Note payable	\$ 1,200,002	\$ 1,215,294
Less: current portion	(21,836)	(23,014)
Total Long – term Debt	\$ 1,178,166	\$ 1,192,280

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.

Table of Contents

GALAXY GAMING, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2009

Note 9: Notes Payable

	2009	2008
Note payable-related party	\$ 415,295	\$ 415,195
Convertible notes payable	50,000	0
Total notes payable	\$ 465,295	\$ 415,195

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.

The convertible notes payable bear interest at 12% and are due October 2009. The holders of \$150,000 of the convertible notes converted the notes, including accrued interest, during the quarter ended September 30, 2009 into 786,739 shares of the Company's common stock. The holder of the remaining \$50,000 note converted the note, including accrued interest, into 256,250 shares of common stock in October 2009. The notes 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.

Note 10: 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 a six year renewal. The monthly minimum rental payment is \$17,500 and rent increases 3% every year on September 1st. Remaining rent to be paid under this lease agreement including the renewal option is summarized as follows:

Year ending December 31,	
2009	\$ 55,575
2010	218,464
2011	225,020
2012	231,772
2013	238,728
Thereafter	671,356
Total Lease	\$ 1,640,915

Obligation

Legal Proceedings

The Company's current material litigation is briefly described below. The Company assumes no obligation to update the status of pending litigation, except as required by applicable law, statute or regulation.

F-9

Table of Contents

California Administrative Licensing Action

In 2002, Galaxy Gaming of California, LLC, a wholly owned subsidiary of the Company, submitted an application to the California Gambling Control Commission (the "Commission") for a determination of suitability for licensure to do business with tribal gaming operations in California. The Division of Gambling Control of the California Department of Justice (the "Division") processed the application and in late 2005 made an initial recommendation to the Commission that the subsidiary was not suitable. The subsidiary believes that the process, as conducted by the State of California, was seriously flawed and biased and in December 2006, exercised its right to have an administrative law judge further adjudicate the process. The Commission agreed and assigned the matter for adjudication before an administrative law judge. However, the Division (now known as the "Bureau of Gambling Control") did not file its statement of issues until October, 2009. The Bureau also extended an offer to pursue a stipulated settlement, which the subsidiary accepted and parties have entered settlement negotiations.

After consummation of the Share Exchange Agreement between SDI and Galaxy Gaming, Inc. in February 10, 2009, (see Note 1), the companies jointly applied to the Bureau for a finding of suitability. It is expected the Bureau will find the current application acceptable, and if so, the subsidiary will request withdrawal of its application. Subsequent to the Commission's approval, the Company intends to dissolve the subsidiary and business in California will continue through Galaxy Gaming, Inc., as it does currently.

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.

Table of Contents

GALAXY GAMING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009

Note 11: Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on periodic reviews of accounts receivable. For the nine months ended September 30, 2009 and the nine months ended September 30, 2008, the Company recorded a provision of \$22,760 and \$22,786, respectively.

Note 12: Dividend Distribution

The Company recorded a one-time, non-cash dividend on December 31, 2007 of approximately \$542,466. This dividend resulted due to the continuous efforts of acquiring all the intellectual property from the LLC.

Through this dividend, the Company acquired a note receivable (see Note 3) and a note payable (see Note 8). These notes were assumed in connection with the asset purchase agreement from the LLC. Both the notes stated are 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.

Note 13: 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 September 30, 2009 and December 31, 2008. There were 31,059,781 common shares and -0- preferred shares outstanding at September 30, 2009.

Note 14: Related Party Transactions

The Company received working capital loans from the LLC, a related party, in 2008 and 2007. The initial inventory and fixed assets acquired on January 1, 2007 were acquired from the same related party.

The Company acquired from the same party, a note receivable (see Note 3) and a note payable (see Note 8). These notes were assumed with the asset purchase agreement from LLC. Both of the notes are 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 Company sub-leases its office space from the LLC, a related party, for \$18,525 per month. Rent expense was \$162,766 and \$210,000 for the nine months ended September 30, 2009 and for the year ended December 31, 2008.

Table of Contents

GALAXY GAMING, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2009

Note 15: Income Taxes

For the nine months ended September 30, 2009 and for the year ended December 31, 2008, the Company incurred a net loss and, therefore, has no tax liability. The Company has previous net operating loss carry-forwards of \$588,000. The losses will be carried forward and can be used through the year 2028 to offset future taxable income. 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 \$120,000 that can be used in the future to offset U.S. federal income tax owed.

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

Deferred tax asset attributable to	2009	2008
Net operating loss carryover	\$ 257,917	\$ 171,429
Valuation allowance	(257,917)	(171,429)
Net Deferred Tax Asset	-	-

Note 16: Other Income (Expenses)

Other income (expenses) of the Company consists of the following for the nine months ended September 30, 2009 and 2008:

	2009	2008
Interest income	\$ 20,690	\$ 24,860
Interest expense	(115,178)	(90,667)
Total Other Income (Expenses)	\$ (94,488)	\$ (65,807)

Note 17: Going Concern

The Company has negative working capital, has incurred operating losses since inception, and its operating activities to date have required financing from outside institutions and related parties. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company will continue to need outside financing to support its internal growth.

Management continues to seek funding to pursue its business plans.

F-12

Table of Contents

GALAXY GAMING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009

Note 18: Cash Flow Disclosures

Non-Cash Investing and Financing Activities

During the year ended December 31, 2007, the Company acquired from the LLC, a related party, a note receivable of \$552,447 (see Note 3) and a note payable of \$1,235,880 (see Note 8). These notes were assumed with the asset purchase agreement from the LLC. Both the notes stated are 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 valued at \$140,967. The Company recorded a one-time, non-cash dividend of \$542,466 to complete this transaction.

During the nine months ended September 30, 2009 the Company issued 870,000 shares of stock for services to be performed in a non-cash transaction pursuant to a service agreement. The cost of the services is being expensed over the life of the service agreement. The Company issued 100,000 shares of common stock in settlement of accounts payable. Convertible notes payable in the amount of \$150,000, plus accrued interest, were converted to equity resulting in the issuance of 786,739 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.

Note 19: 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 Galaxy Gaming, Inc., then a privately held Nevada corporation. In connection with the closing of the Share Exchange Agreement, SDI obtained 100% of the issued and outstanding shares of Galaxy Gaming, Inc., and Galaxy Gaming, Inc. 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) were 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 Galaxy Gaming, Inc. in exchange for obtaining ownership of 100% of the issued and outstanding shares of Galaxy Gaming, Inc. 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, Inc. 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.

In August of 2009 upon filing of articles of merger in Nevada, Galaxy Gaming, Inc was merged into SDI. At the effective date the separate legal existence of Galaxy Gaming, Inc 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.

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, Galaxy Gaming, Inc. 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 20: Subsequent events

The Company has analyzed its operations subsequent to September 30, 2009 through November 4, 2009 and has determined that it does not have any material subsequent events to disclose in these financial statements.

F-13

Table of Contents

Item 2. Management's Discussion and Analysis or 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, manufacturing and marketing proprietary table games and electronic enhancements and bonus systems for table games for use in casinos throughout North America and on cruise ships worldwide. Casinos use proprietary table games and electronic bonus jackpot products in lieu of those available in the public domain (e.g. blackjack, craps, roulette, etc.) because of their popularity with players and because the casinos generate significantly more profit. We manufacture our products at our headquarters and manufacturing facility in Las Vegas, Nevada. In addition, we outsource the manufacturing of certain of our sub-assemblies in the United States and internationally.

Game Placements

We classify our products into three categories – Side Bets, Premium Games and Electronic Enhancement Products. Generally, the Side Bet category refers to one or more additional wagers used in conjunction with public domain games whereas the Premium Games are stand-alone proprietary games or a variation thereof. The Electronic Enhancement category refers to our products and systems known as the Bet Tabulator System, TableVision and the Bonus Jackpot System.

As of September 30, 2009, our Side Bets and Premium Games were in service and generating revenue on a total of 1,607 tables compared to 1,445 tables on September 30, 2008. These tables were operational in over 250 casinos in North America and on cruise ships internationally. Based on confirmed sales orders and sales estimates, we expect continued growth in table game placements for the remainder of 2009. Our electronic table game enhancement platform known as the Bonus Jackpot System ("BJS") debuted on March 13, 2009 and as of September 30, 2009, over 100 units were installed in casinos. This product has proven popular with players and casino operators and we likewise anticipate continued growth in BJS placements for the remainder of 2009.

Table of Contents

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.

Despite the current economy, or maybe because of it, our products are in their highest demand. Our products generate additional profit for our clients yet require an insignificant capital expenditure. Accordingly, we have demonstrated a 22% increase in recurring revenues compared to the same quarter last year. We expect the remainder of the year to result in continued recurring revenue growth.

Expand our distribution network.

The gaming industry is highly regulated and as a result a widespread distribution system is desired to fully leverage placement of our gaming products. To expand our distribution channels we must obtain regulatory approval in additional jurisdictions throughout North America and internationally. As a result, we are seeking approval to conduct business in expanded jurisdictions. Additionally, we have committed to increasing the size and performance our sales force.

Increase our per unit price point.

Our electronic gaming enhancements such as our BJS platform generate significant more revenue per unit per month for us than our Premium Games which in turn generate significantly more revenue per unit per month than our Side Bets. As a result, our focus is to develop or acquire new electronic enhancements and premium proprietary game content rather than additional Side Bet products to command higher royalties.

Stay profitable

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 closely guard our profits and cash flow. Except for the impact of the extraordinary expenses associated with our transformation from a private company to a public one and the litigation we were engaged in during the first nine months of 2009, we would have maintained an operating profit. We expect this trend to continue particularly due to anticipated reduced legal expenses.

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 have also began the launch of a creative and effective 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 derive our revenue from the sale and license of our products and intellectual property. Consistent with our strategy, we currently define our revenue sources into three categories, which includes (1) a one-time sale or reimbursement of our manufactured equipment; (2) a negotiated recurring licensing fee for our table game content; and (3) a recurring licensing fee associated with the performance of our electronic table game platform. 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. We anticipate we will receive additional revenue from new products beginning later in 2009.

Table of Contents

Financing

In anticipation of our current aggressive growth plans and acquisition strategy, as well as the investments in our infrastructure necessitated by our strategy, we require additional funding. Because we will be unable to adequately fund the growth initiatives outlined herein without new sources of investor financing, we are currently attempting to raise funds through the sale of our common stock and funding of new loans. If we fail to raise capital, we will still pursue acquisitions and growth, however, our acquisition opportunities could be limited and our growth strategy could be negatively impacted.

Expected Changes In Number of Employees, Plant, and Equipment

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

Results of Operations for the three months ended September 30, 2009

For the three months ended September 30, 2009 our continuing operations generated gross revenues of \$782,493, an increase of 47% from gross revenues of \$533,375 for the three months ended September 30, 2008. This increase in revenue was driven by each of our product categories; Blackjack Enhancements, Premium Games and Bonus Jackpot Systems. Our cost of goods sold for the quarter was \$91,158 compared to \$21,269 in the prior quarter. Much of this increase is related to installations of our Bonus Jackpot System. This product was implemented in the first quarter of 2009 and was not present in the prior year quarter. Our Operating Expenses for the quarter were \$681,865 an increase of 19% over the third quarter 2008 operating expenses of \$568,576. The increase was primarily due to increased payroll and outside services. Other expenses increased to \$41,204 from \$26,203 in 2008 due to increased interest expense.

The increase in revenue was instrumental in reducing the net loss for the three months ended September 30, 2009 to \$31,734, compared to a loss of \$82,673 for the three months ended September 30, 2008. Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$15,327 for the three months ended September 30, 2009 compared to a loss of \$50,406 for the three months ended September 30, 2008.

For the nine months ended September 30, 2009 our continuing operations generated gross revenues of \$2,065,691 an increase of 37% over 2008 revenues for the nine months of \$1,507,212. This increase was driven by each of our product categories. Our cost of goods sold was \$179,410 for the nine months compared to \$96,852 in the prior year. The increase is due to significant placements of our Bonus Jackpot Systems during the third quarter. Our operating expenses were \$1,946,219 for the nine months compared to \$1,761,812 for the first nine months of 2008. The increase was primarily related to payroll and outside services and legal expenses related to the bankruptcy and reverse merger transactions. Other expenses for the nine months were \$94,488 compared to \$65,807 in 2008. The increase was due to higher interest expense on notes payable.

Our net loss from continuing operations for the nine months decreased to \$154,426 compared to a loss of \$417,259 for the first nine months of 2008.

Management believes that continued growth from existing and new products could result in positive cash flow by the end of 2009.

Table of Contents

During the nine months ended September 30, 2009, we experienced a net loss from discontinued operations in the amount of \$99,950. This transaction represented 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.

Liquidity and Capital Resources

As of September 30, 2009, we had total current assets of \$857,107 and total assets in the amount of \$1,588,214. Our total current liabilities as of September 30, 2009 were \$1,182,822.

Cash used in operating activities was \$520,967 for the nine months ended September 30, 2009 compared to \$182,345 used in 2008. The net loss from operations improved to \$154,426 from \$417,259. This was offset primarily by increases in accounts receivable and prepaid expenses

Cash flows from investing activities for the nine months ended September 30, 2009 were \$7,887, consisting of payments received on a note receivable, net of fixed asset purchases. Cash generated by financing activities during the nine months ended September 30, 2009 were \$496,558 consisting primarily of proceeds from issuance of common stock and from issuance of convertible notes payable.

We intend to fund our continuing operations through increased sales and issuance of debt or equity financing arrangements, which may be insufficient to fund expenditures or other cash requirements. On April 24, 2009, we closed an issuance of \$200,000 in convertible promissory notes due in October of this year. The funds generated from this short-term debt financing assisted us in meeting our cash needs in the near term. Of these notes, \$150,000 were converted into common stock of the Company during the quarter ended September 30, 2009. The remaining \$50,000 note was converted in October 2009.

We sought additional financing in the amount of \$402,500 through a private equity offering beginning July, 2009 to secure additional funding for operations. We raised \$75,000 from this offering through September 30, 2009 resulting in the issuance of 214,286 common shares and 107,143 warrants. Subsequently, the offering fully funded and our Board of Directors amended the offering to permit additional equity investment up to a maximum of \$630,000. As of November 2, 2009 the offering was oversubscribed and we raised \$589,000 resulting in the issuance of a total of 1,682,857 common shares and 841,428 warrants. We expect to receive additional funding from this offering through November, 2009.

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.

Going Concern

We have incurred net losses from operations for each of the last two fiscal years, have negative working capital, and require additional capital in order to expand our operations and become profitable. Our ability to raise additional capital through the future issuances of common stock and other means is unknown. The obtainment of additional financing, the successful development of our contemplated plan of operations, and our transition, ultimately, to the consistent attainment of profitable operations are necessary for us to continue operations. For these reasons, our auditors stated in their report for the Year ended December 31, 2008 that they have substantial doubt we will be able to continue as a going concern.

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 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 Interim Chief Financial Officer, Robert Saucier. Based upon that evaluation, our Chief Executive Officer and 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 September 30, 2009.

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 Interim 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 Interim 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, control 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 10 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 June 23, 2009, we closed a private offering of common stock sold at a price of \$0.40 per share. A total of 138,750 shares were sold to thirteen purchasers for a total purchase price of \$55,500. A total of 37,500 shares were purchased for cash proceeds in the amount of \$15,000. A total of 86,000 shares were sold in exchange for promissory notes in the amount of the purchase prices (a total of \$34,400). The notes are secured by the shares purchased, bear interest at a rate of six percent (6%) per year, and are payable over the course of two years. Finally, 15,250 shares were issued in exchange for services rendered by a company executive valued at \$6,100. In July of 2009 we began a private offering of common stock sold at a price of \$0.35 per share. A total of 214,286 shares and 107,143 warrants were purchased through September 30 for cash proceeds of \$75,000. As of November 2, 2009 the offering was oversubscribed and a total of 1,682,857 common shares and 841,428 warrants were purchased for cash proceeds in the amount of \$589,000. 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.

Table of Contents

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 September 30, 2009.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Description of Exhibit

Number

3.1 Articles of Incorporation (1)

3.2 Bylaws (1)

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

1 Incorporated by reference to Current Report on Form 8-K filed February 13, 2009.

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: November 3, 2009

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