



FEBRUARY 2, 2010

INITIATING COVERAGE

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GALAXY GAMING INC. (OTC BB: GLXZ)

INDUSTRY: GAMING EQUIPMENT

DISCLOSURES: 1, 4D, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 02/01/10	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET (PROJECTED)
\$0.50	N/A	32.1	\$16.0	65%	\$1.10

ANNUAL DATA – DEC YEAR END			
	2009E	2010E	2011E
EPS	\$ (0.01)	\$ 0.01	\$ 0.02
P/E	N/M	50.0x	25.0x
REVENUE (MIL.)	\$2.81	\$5.07	\$9.79
P/S	5.7	3.2	1.6

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2011E	N/A	N/A	N/A	N/A	\$0.02
2010E	N/A	N/A	N/A	N/A	\$0.01
2009E	--	N/A	N/A	N/A	\$(0.01)

Recommendation:

We are initiating coverage of Galaxy Gaming, Inc. with a BUY Recommendation for both intermediate- and long-term capital appreciation. We believe the shares are in perfect syzygy to accumulate based on the depressed state of the gaming industry, the corporate success that GLXZ has had with its new games and growth strategy, and the need for added revenues by States to supplement their depressed tax bases; all of which should help spur the Company’s growth and product acceptance.

Joined with the addition of GLXZ’s Bonus Jackpot System, there should be several operating factors that add revenue bulk to the Company’s operating model. Our work suggests that the shares of GLXZ should approach \$1.10 within the next 18-months but believe that the story is sufficiently distinctive that a higher premium valuation could be awarded on the operation as the Company matures.

Introductory Preamble:

Late in 1993, I travelled to Las Vegas as a jumping-off point for a plant tour in Cedar City, Utah. Now, the analyst “dirt-kicking escapade” was to check-up on the new chemical process manufacturing facility located in the southwestern corner of that state, which was paid for out of pure necessity, by Uncle Sam. This new operation was the replacement plant for a disaster that occurred to the company which affected the stock, American Pacific, Corp. (NASDAQ: APFC--\$7.84.) By the way, this was truly a disaster: it was not the typical hyperbole that you hear from Wall Street types. Check it out.

Go To: Youtube: “pepcon explosion”

I had made a pile of money in APFC shares from 1989 to 1992, and the stock had recently pulled back and, in late '93, was worth looking at again.

Anyway, we were to meet at a private jet hanger at Las Vegas’ McCarran International Airport. When we arrived, we discovered that a friend of American Pacific’s CEO’s was going to let us use his Gulfstream to fly to the new facility.

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Introductory Report

When I arrived at the airport, a number of NY suit-types were there, as well as some little-old gentleman and we were about to board this brand-spanking new plane. I certainly was the outcast from the research bunch. The octogenarian, with his boots and bolo tie, was also definitely out of place compared to the rest of the crowd. We boarded the plane and the kindly gentleman and I were left to the front seats, facing one-another...in a private jet, one would consider our positions the “jump seats” for the unwashed masses, if there was ever such a thing...on a private jet!

Anyway, we chatted for a long time and as anyone who knows me very well can testify, I can talk a blue-streak to just about any audience, friend or stranger, given a chance. So could this older gentleman: he loved to talk as well. So, this turned out to be a great trip. Having no idea who the guy was, I learned that he had lived all over the country; born in Union, Mississippi; grew-up and worked in Sterling, Illinois and Boston; had a long career in Reno and Las Vegas; and more or less retired in Solana Beach, CA.; he'd been involved in slot machines and had made several investments in companies like APFC... (Great, a potential investor prospect for small-cap ideas!)

Well into the discussion (by which time I had learned his name, William Redd), he said, “I like you! Wanna see my Pride and Joy?!” And of course thinking he was going to flip-out and show me snap-shots of his grandchildren or dogs or collector cars or something typical, I fell for the old, “shaggy-dog” picture trick when he pulled from his wallet a photo of...Pride™ and Joy™.



Now this long-winded, shaggy-dog story actually has a purpose. (By the way, I've kept the picture in my wallet since that day in 1993. Despite it being tattered and torn, it's held a hallowed place on my rearside until just this last December 10th due only to the reason that my car was broken into and my wallet was stolen.) The silly photo served as a weighty reminder about Las Vegas, gambling, and how you can find amazing people in just about any circumstance. I eventually discovered that the jet was his jet and that the reason he moved to Boston in the 1940's was to manage an amusement game and jukebox distribution operation over a 6-state area for Bally's. And oh yea! This Gent from Mississippi, ignored by the high-and-mighty in the back of his plane and who eventually ended up in Reno and Las Vegas, wasn't Bill Redd, but better known as Si Redd, or around these parts even better known as “The Slot Machine King!”

Here's how it pertains to the investment part. In 1967, he moved to Reno to distribute slot machines to the casinos located in Nevada and created Bally's Distribution, Inc. Beforehand, casinos viewed slots as just a convenience for the wives and girlfriends, while the men came to town to play blackjack and craps and for couples to take-in the entertainment. Si understood the pent-up opportunity machines represented and the storehouse of gambling opportunity those bored women represented. With his ability to innovate away from just the standard, one-armed bandits and his innate ability to sell casino operators, those stigmas that heretofore stood as barriers began to fall and fall rapidly. It was not long before he was crowned throughout the state as the "Slot Machine King." It was also because of this success that he became a formidable personage within Bally's as both an officer and shareholder.

With the advent of "Pong" in the early 1970's, Redd quickly grasped the melding of digital video technology and gaming and recognized it could alter the course of the simple one-armed bandit design. He also envisioned adding machine logic to the skill and excitement of Poker, Keno, and Blackjack. But try as he might, he couldn't convince Bally's to move into the next century with technology and out of the "tried and true" equipment of "iron and lemons."

Redd did convince Bally's management to let him part ways with certain IP. Off he went and formed International Game Technology, (NYSE: IGT: \$19.04) which quickly became the creator, purveyor and innovator of most casino video/automated betting games. Starting with the "coin-slider" game—the machine game that used the acrylic "push-broom" to "help" shove dropped coins to dislodge a multitude of other coins off the ledge and on the tray, IGT moved into single video slots. From there IGT tied together stand-alone machines by networking clusters of slots and created collective bonus jackpots within a casino and then on to intrastate mega-jackpots, with the most famous being "MegaBucks." IGT established their industry dominance with a combination of innovation, salesmanship and the adoption of technology. It has since been the undisputed leader in video gambling and my little "dirt kicking" trip to Cedar City placed me across the table from the man referred to though out the industry as the "King of Video Poker."

With the course of time, the importance of traditional slot machines back in the 1970's rose to a point on a casino's ledger where they accounted for only about 40 percent of a successful operation's revenues. Table games still dominated the ledgers of casinos. However, since that time the commanding supremacy of green felt table games such as Craps, Poker, Blackjack, Roulette, etc. within the casino halls has faded further in their importance to the maintenance and everyday operation of the machine games. In other words, the allure of Stars, Celebrities, Sheiks, and Millionaires still holds their attraction for most casinos as tourist enticement; but the revenue weight has dramatically shifted from the Potentates to the everyday importance of the bus-loads of blue-haired retired cafeteria workers, truck drivers and beauticians as they spill into the lobbies and run-away expanses of slot machines with their cups of quarter and dollar coins.

Today, with new game concepts, bells, sirens, and exciting additions like laddered winnings and bonus jackpots, automated/video gambling machines account for as much as 60 percent of a casino's revenue in Las Vegas and as much as 75 percent of casinos' take nationwide. And if casinos could really maximize their profit objective, executive managements would love to see the shift move completely to the machine "left" and eliminate table games altogether!

Think about the advantages! Video games don't take breaks or call-in sick like human dealers do. They are certainly not surly or disrespectful to the guests nor do they react negatively when the guests act poorly when losing or winning ungracefully. They don't steal from the house, something which is known to happen. So from an employee cost standpoint, here is just one single, major advantage where machines provide a certain definite advantage over table games—hands-down.

Added to the labor benefit, the win ratio of machine games versus table games, generally favors that of the machines. We'll discuss this factor in more detail below, but with every hand of Blackjack, for example, the

casino's edge per wager averages a measly 1% return compared to the "dialed-in" returns programmed into the machines that are regularly higher than 5%.

Another reason video gambling has marginalized table games is that they can be electronically monitored for security purposes as well as "adjusted" to their "win" ratios. Casinos have an early warning alarm system on machine gambling games that help detect fraud or point out foul play. This not only cuts down on a casino's losses but helps to dissuade perpetrators from attempting to tackle crimes against the business (not that they may try to steal directly from patrons as they play, roam on the premises or boost cash from the tellers!).

Yes, the table pits are monitored by the "eye in the sky" (surveillance cameras), stalked by bosses, managed by supervisors, etc., but all of these methods of surveillance, supervision, and compliance depend on a human element of both diligence and ability, which may be nothing more than a hunch that something is awry. To detect that dirty work is afoot, humans usually require more than a few errant samples to sufficiently build a recognizable trend to detect fraud or cheating. Machines are more capable of both collecting data and often faster at organizing the results into trends that can point to discernable trends warning of criminal activities.

So, why do casinos even have table games? Why not just replace them all with slot or video poker machines? Wouldn't that make a lot more sense and result in increased profits for the casino operators?

In theory, the casinos would indeed make a lot more money if they replaced all but their ultra-high limit table games with machines. However, humans being humans, casinos have understood that different people like different forms of gaming. While some people enjoy sitting in front of a computerized box for the purpose of betting their hard earned money into a slot, day and night, there are people who prefer the human interaction resulting from a live human dealer and fellow players who celebrate their wins and empathize with their losses.

A comparison to this phenomenon is this: "The invention of the vending machine did not eliminate the bartender profession." When a casino removes all their table games, (yes it does happen), they are reduced to the status of being merely a "slot joint" and have lost their higher end play to their competitors. Some people are entertained by machines, others require human interaction.

From a big picture standpoint, wouldn't it be great if table game play:

- 1 Was as efficient as video game play;
- 2 Was able to provide the same attractive win excitement and entertainment value as video games provide; and
- 3 Could provide the management team statistical play data on customers and dealer efficiency, guidance on win/loss ratios, game preferences, play problems and fraud warnings such as unusual winning streaks and potential cheating gimmicks before they become really problematic for the casino?

Galaxy Gaming, Inc. is making progress providing this additional capability as it sells and installs its program of side bets, proprietary premium games, bonus jackpot systems and gambling data networks into casinos and gambling establishments across North America. If one looks closely at the strategy, GLXZ is rolling table games and systems much in the same manner that IGT came to dominate the video gaming and slot machine business: GLXZ first adds its collection of side bets and stand-alone premium proprietary table games. It then adds its proprietary "Bonus Jackpot System" ("**BJS**") capability to each table. The Company then adds its system of tying their tables of tracking hands dealt, wagers made, wins/losses, customer preferences, efficiencies, and many other helpful statistical points and aggregating casino jackpots. Finally, this last system—vis-à-vis GLXZ's "Andromeda Series" of its BJS ties casinos together across state borders—to build "Megajackpots," which the Company will bank and profit from.

This last point requires further discussion. For those of us who have followed the success of IGT, we know that even though Si Redd's original inventions successfully launched the Company forward, it was the introduction of MegaBucks that really put IGT "on the map." MegaBucks was and still is the highest margin, most profitable segment of IGT's business. It has been so successful that nearly all of IGT's competitors have established some form "wide area progressive" game of their own (as this system is known in the gaming industry). Combined with other "participation" games, IGT, the "equipment manufacturer," has been jokingly referred to as the "Largest Casino in the State of Nevada!" What IGT and MegaBucks did for the slot industry, Galaxy Gaming and their BJS system is proposing to do the same for the casino table gaming. We believe this is a "good bet."

COMPANY BACKGROUND:

Galaxy Gaming designs, manufactures and markets casino table games and electronic jackpot bonus system platforms, used in both land-based and cruise ship-based gaming establishments. As we overviewed, the games that GLXZ develops are actually betting games generally played alongside and from the cards dealt at the well-established casino table games but are made to add fun, excitement, entertainment and potential payout to the casino's clientele. The Company markets its products to casinos throughout North America and to cruise ships worldwide, and its revenues are derived from the recurring royalties received from casinos for game content licensing, set-up and equipment sales, play overrides and other fees paid based upon the performance of its electronic platforms. With the continued roll-out of its Bonus Jackpot System tied to table games, several new revenue sources are being added to the GLXZ's Income Statement.

HISTORY AND INCEPTION AS A PUBLIC COMPANY: In 1997, Galaxy's founder and President, Robert Saucier, was the founder and an investor in a small casino in Washington State (Washington's first non-Indian casino). The Mars Hotel and Casino had ten table games, primarily blackjack, and was located on the eastside of the state in Spokane. During this period, Mr. Saucier invented a side bet for blackjack known as "Horseshoe Blackjack" that became very popular among casino patrons for increasing the entertainment and play value of each hand. More importantly, the Casino's returns on each blackjack table that employed the gaming device improved significantly. Specifically, the casino's "hold" percentage¹ increased from around 17% to over 33%!

Based on the popularity of the side bet wager with players and the dramatic increase in the casino's table games' profits (which was public information), other Washington casinos wanted to employ the table option for their patrons and requested licenses from Saucier to play Horseshoe Blackjack side bets at their casinos. (Eventually, the game was modified and the name changed to Lucky Ladies™.) In October of 1997, a predecessor of the present Galaxy Gaming Inc. was formed by Mr. Saucier to distribute this side bet to the Mars Hotel and Casino's competitors and other casino operators across the country. Lucky Ladies™ remained Galaxy's only product until late 2002, when a new casino poker game called "Texas Shootout®" was released and quickly gained popularity among casino operators and their patrons for essentially the same reasons.

Galaxy expanded its sales force and struck out to broaden distribution into new jurisdictions. Growing methodically and through reinvested earnings, GLXZ maintained a regular pace of new product introductions to augment the top-line and provide new merchandise to pre-existing accounts. Today, Galaxy Gaming, Inc. has developed numerous games since its founding and in three, distinct product categories.

GOING PUBLIC: On October 7, 1997, a predecessor of the present GLXZ, Galaxy Gaming Corporation, was formed. Galaxy Gaming, Inc was incorporated in the State of Nevada on December 29, 2006 and all of the predecessor company's assets, rights, title, interest and business operations were placed into it in exchange for stock in the new corporation.

¹ Hold percentage is the ratio of the money won by the casino as a percentage of the money "at risk" by the player (i.e. money in the table's drop box.)

Reversing into Secured Diversified Investment, Ltd. (former ticker symbol: SDFD.OB), Galaxy Gaming, Inc. became a publically-traded Company when the merger was executed in February 2009 as part of a Chapter 11 reorganization of SDFD. SDFD had halted all previous operations and now, Galaxy Gaming is the public entity's only business. The bankruptcy of SDFD assured Galaxy Gaming that it could reverse into a squeaky-clean, publicly-traded shell. The Company adopted 'fresh-start' reporting in accordance with GAAP requirements fulfilled during the reorganization.

HISTORY OF TABLE GAMES:

Until the late 1980s, casino-operated table games consisted mainly of public domain games such as Blackjack, Craps, and Roulette. In 1988, a game called Caribbean Stud entered into use in an Aruban casino. A variation of stud poker, Caribbean Stud was designed to be house-banked in a casino and played directly against the dealer (rather than played between players as is the traditional style of play in public domain poker games). Furthermore, for an optional one-dollar side wager, players have the chance to win a progressive jackpot that can reach several hundred thousand dollars in size....**NB!** This is where the investment return per hand for the casino improves.

The inventors of the game applied for, and obtained, various U.S and international patents. As the game's popularity grew in U.S. and abroad, the inventors were able to garner royalties on its adoption. Eventually, the inventors sold a portion of their interest in Caribbean Stud for \$35,000,000. With the success of Caribbean Stud emerged the proprietary table game industry.

Over the past two decades, a myriad of proprietary table games and side bets have since been created and introduced into the market. Casinos quickly recognized the benefits afforded them from the relatively low incremental costs of adding new proprietary games as well as the improved income streams and fatter house returns associated with their play.

Despite current global economic headwinds, gaming continues to expand both domestically and internationally. In certain gambling regions, such as North America, it is the introduction of innovative products, like proprietary table games and side bets, that have helped stabilized the diminishing ratio between table games and other segments of gaming, particularly video slot and other digital electronic machines.

Galaxy's products fall into three categories – Side Bets, Premium Games, and Electronic Enhancement Products.

SIDE BETS: Consist of one or more additional proprietary wagers for use in conjunction with public domain table games like Blackjack, Baccarat and Pai Gow Poker. Side bets appeal to players because they offer much higher payouts (for example 1,000 to 1 odds) compared to the odds in typical public domain games. Casinos like side bets not only because they attract more players to the game, but because they can greatly increase the profitability (and table returns) of the game at each table. This is done by providing a higher house advantage than the traditional wagers. The Company's current side bet platforms include:

Lucky Ladies™: Deployed at Blackjack tables, the wager considers the first two cards the player receives. If equal to a point value of twenty, the player wins. Winnings vary based on the construction of the hands (e.g. both cards of same suit—two Queen of Hearts, etc.) and odds ranges from 4:1 of their wager up to 1,000:1. As the Company's first game product, Lucky Ladies™ has grown to become the most widely deployed side bet in the world in terms of the number of tables in play.

Bonus Blackjack: Blackjack players can make one or two wagers that consider the first two cards the player receives and/or the first two cards the dealer receives. If the cards in either the player's hand or the dealer's hand are equal to a point value of twenty-one (a.k.a. "Blackjack"), the player wins, provided that they placed a wager on the corresponding triggering event. The game integrates a progressive

jackpot option: If a player places a wager on both the dealer and player and they receive an Ace and Jack of Spades, the player wins the Progressive Bonus Jackpot.

Suited Royals: This side bet for Blackjack considers the first two cards the player receives. If the cards are of the same suit, the player wins and is paid odds according to a posted pay schedule. Higher odds are paid if the cards contain certain combinations such as two suited face cards, a King and Queen in suit—for example, a King and Queen of Diamonds, the highest triggering event— can result in the player being awarded odds of 100:1 of their wager.

Super Pairs: A Blackjack side bet that pays when the first two cards the player receives are a pair. Higher odds (up to 50 to 1) are paid if the cards are of a certain suit such as diamonds.

Lucky 8 Baccarat: As the name suggests, this side bet is for Baccarat and considers the point total of either the player's hand, the banker's hand, or both. The player's wager is based upon whether or not the selected hand contains the point value of eight. Typically, players may win from 3 to 1 up to 1,000 to 1, or a bonus jackpot, depending upon the nature of the configuration of the corresponding hand and, at times, the opposing hand.

PREMIUM GAMES: Stand-alone proprietary games or variants. These games typically generate more revenue per unit than the side bet games listed earlier. These games include:

Texas Shootout: This was the first successful house-banked table game based upon the red hot game of Texas Hold'em poker. Players compete against the dealer instead of each other. Participating players and the dealer each receive four cards of which they select two to play, or alternatively may split their four cards into two, two-card hands. Five additional community cards are dealt and the object is for the player to use any combination of their two cards plus the five community cards to make the best five card hand possible and to beat the dealer's hand. In addition there is a side bet called "Shootout Bonus" whereby a player can win up to 5,000 to 1 on their wager.

Three Card Split: A poker-based game in which each player and the dealer receive three cards and may create 3 individual hands; a 1-card hand (Bet 1), a 2-card hand (Bet 2) and a 3-card hand (Bet 3 - all three cards combined). All hands (excluding the bonus bet described later) are played against the dealer. Three Card Split also features an optional bonus bet which is based on a player's 3 individual cards and 1 bonus community card. All qualifying bonus hands are paid at odds according to a posted pay table.

Emperor's Challenge: A Pai Gow poker-based game that offers two additional optional wagers. The first optional proposition bet is known as "Pai Gow Insurance," which is available to each player and the Player-Banker to make before play begins. This proposition bet is independent of the primary Pai Gow Poker bet and the Emperor's Treasure bonus proposition bet. A player can win on one and lose on the other. The player wins their proposition bet if they have achieved a pre-defined hand ranking according to a posted pay table. This proposition bet is always banked by the casino and paid or collected by the dealer.

The second optional proposition bet is known as "Emperor's Treasure" which is available to each player and the Player-Banker to make before play begins. This proposition bonus bet is also independent of the primary poker bet. The player wins their proposition bet if they have achieved a pre-defined hand ranking according to a posted Pai Gow Poker bonus pay table.

NEW PREMIUM GAMES: In the first two to three quarters of 2010, the Company expects to introduce as many as a dozen new premium games. If accomplished, this is the most aggressive roll-out of new casino table games ever by the Company. Immediately on tap (to be released in February) are three new premium games called

“Triple Attack Blackjack,” “Three Card Double Play” and “Deuces Wild.” These three games will double the number of the Company’s premium games in one month.

ELECTRONIC ENHANCEMENTS: Products and systems here are known as the "*Bet Tabulator System*", "*TableVision*" and the "*Bonus Jackpot System*". This category of products is essentially derived from the flow of GLXZ table games played, generated from the market created by Galaxy Gaming’s selling of side bets and premium table games into the casino market. The "*Bet Tabulator System*" and "*TableVision*" products are system enhancements for the table games that enable the Company and individual casino to separately track wagers from side bets from proprietary game wagers, which previously all went into the same pot. The sensors and logic employed to automate and validate certain wager processes have become enabling technology for new table game enhancements like the "*Bonus Jackpot System*."

The Bonus Jackpot System can be added to any GLXZ side bet or proprietary table game and offers additional wager propositions to patrons with the potential for far larger payouts than the standard game wager offers.

Each table, which employs chip sensing devices, within the casino is connected to an internal data network and is then connected to Amazon.com’s data center(s). Protected by this redundant data tracking and storage capability, each wager is recorded, the odds are calculated and jackpots tallied. The data center compiles behavioral data on participants’ gambling trends and their playing preferences. Moreover, as it can be developed to encompass statistically more meaningful data and sight more notable variations, casino operating data regarding dealer efficiency, table and game ROIs, fraud warnings, unusual win/loss ratios, etc. will be available to house operators. Like anything else in the market data industry, the “how,” “who” and “how much” of operations may be more valuable to the casinos than the way the games (that generate the revenue to create the data) are to the Company. GLXZ is becoming well established in the casino industry with its side bets and proprietary games. This is merely an entrée into each and every gaming operation to: (1) First introduce the Bonus Jackpot System, and (2) Establish the Company’s data collection and analysis capability.

This becomes Galaxy’s approach of one day becoming the “Nielsen’s” of gambling market data.

ONE MORE MAJOR ADVANTAGE TO GLXZ’S DATA SYSTEM.

An advertising billboard for the Company on every game table....Imagine, if you will, driving down the Interstate highway and noticing the states’ billboard for the estimated Mega-Jackpot winners pay-off. I don’t know about you, but at \$5 million, or \$15 million, or even \$35 million, I don’t even sniff in its general direction. Nope, I look at the aluminum plant in the opposite direction as I pass by.

At \$65 million, I begin to calculate what my monthly take-home would be after the state’s and Uncle Sam’s egregious tax bite. At \$115 million, I think about what I’d tell the boss and where he could stuff the jo....Hey, I’m the boss!!! But now we’re talking about a truly “LIFE- ALTERING” amount of money for just about anybody. And the wheels spin, and the day-dreams occur, and the citrus taste of Mojito’s begins to seem real in my mouth, and Doug Firs look more like Palms and the Sun.....

The same is true for table games. Why do you think those damn buzzers go off and signs flash all the time in the casinos around the slot machines? It is to draw attention to the “life-altering” payoffs of the video machine jackpots. (Thank-you, Si Redd!)

Think about what GLXZ is bringing to its table games first and then whatever table game might be next....Here it is signaling...**LIFE-ALTERING PAYOFFS AT THE BLACKJACK TABLE.** And incidentally, GLXZ is helping to improve the profitability of the poorer performing gambling assets of casinos. It happens to be collecting more and more data about the dolphins (that’s my term for mini-whales.) And lastly, it is really helping out its own Income Statement by doing the above.

Think about the course of events. Remember the Mega-Bucks example above...Same thing. I'm a dollar table Blackjack gambler (a big shot in my own mind. A minnow in the casino's way of thinking...Ok, a dolphin.) The side bets improve the excitement of the game for me. They certainly improve the returns for the table. Then the Bonus Jackpot is at \$2,000! Ho-Hum! At \$25,000, I'm there with my extra bucks because it begins to be enticing. So are a number of other big-winner, dollar players. At \$125,000, not only am I there, but we've attracted some other 'slot machine bunnies' away from their perches. There are more single buck bets being made, but also side bets, as well as jackpot bets. And so on and so on, the higher amount of the jackpot, the more furious the Blackjack play not only at one table, but at all tables tied across the country to the Amazon data system. So, the linked tables are adding up not just one or five Jackpot Bonus Payoff amounts, they are adding together thousands of tables and their associated contribution. They are also advertising the cumulative jackpot across tables into hundreds of casinos. It becomes a veritable feeding frenzy of Blackjack and Blackjack Bonus play.

As you will understand from the points made regarding revenue generation immediately below, GLXZ will produce more revenue from the increased number of hands played and the increase in the "Maintenance Fee" on the Jackpot fund. This is all additive for the Company. As the Mega-Jackpot gets larger, it attracts more players. This generates more hands/wagers being played/paid, generating royalties to Galaxy. It also increases the size of the Mega-Jackpot, which helps increase the maintenance fee GLXZ charges and the players circle is started again until the Jackpot is hit.

A major detail about Galaxy's approach to its Mega-Jackpot...It's not really a Mega-Jackpot. What it really is, is, as one gaming regulator has said, is a "Manufacturers Gambling Promotion." It kinda looks like a jackpot, it's paid like a jackpot, there are winnings like a jackpot... But, it's not a Mega-Jackpot. Because of jurisdictional laws, true Jackpots like this can't cross state borders. So, GLXZ was able to divine a way around the hurdle by creating the MGP. It is a reward system that was created by GLXZ taking a portion out of each wager (just like the building of a jackpot), accumulating that portion, and paying it out on a winning wager, but it's at GLXZ's discretion. On one hand, it has to appear a lot like a Mega-Jackpot or players will not play again. Conversely, this different approach and ability to cross state lines makes it far more flexible to work with. It also allows the MGP to accumulate much more rapidly than a Jackpot opportunity confined by state boundaries.

Galaxy is really going to offer its Bonus Jackpot to every casino it can but expects the smaller and mid-sized houses to allow the Company to "Bank" the "Mega-Jackpot" opportunity. Think about the situation. With the kind of "life altering risks" that these winnings represent, they also embody risk for the house. A large casino, like Caesars Palace understands that a Whale can cost the operation a lot, but casinos have built-in odds that are statistically made to win, with time. A small casino, may not want to risk that kind of odds given any kind of timing and short-term success. This is why GLXZ will step-in and bank the new multi-state Bonus Jackpot: It can spread the risk geographically and statistically over a much wider number of tables and players.

GALAXY GAMING, INC. REVENUE SOURCES

The Company currently has three sources of revenue, with the fourth beginning probably Q1 – 2010 and the fifth beginning in 2011. These five revenue sources are

1. Equipment Reimbursement (e.g. \$1,500 one time charge)
2. Content Licensing (e.g. \$495 per month*)
3. Performance Based Pricing (e.g. 2¢ a wager*)
4. Jackpot Fund Maintenance Fee (e.g. 8¢ a wager*) – Planned to be started by GLXZ in **Q1-2010**
5. Advertising (Likely 2011*)

* Recurring Revenue

GAMING INDUSTRY PERSPECTIVE

Gaming Industry Bucking-Up: While recession has definitely impacted gaming activity this past year, it is important to examine longer trends and consumer attitudes towards gaming and casino entertainment to gain a better perspective on the opportunity for Galaxy Gaming. For example, 54.6 million U.S. adults visited casinos in 2008, according to the *Association of Gaming Equipment Manufacturers' (AGEM) "2008 Global Gaming Supplier Industry Impact Analysis"*. In fact, that's roughly the same percentage of adult Americans that visited casinos during each of the previous five years. It indicates that whether our economy is in a recession or not, gaming has become a primary pastime and form of entertainment to the American household. However, from another perspective, the 2008 nationwide gross gaming revenues were \$32.54 billion, the second highest level recorded. Although this was still quite strong, it was 4.7 percent below the 2007 record of \$34.06 billion and certainly the recession was beginning to show its effects on the industry.

But, responses based on the AGEM survey suggest that Americans view casino gaming as a form of recreation on par with concerts, plays and sporting events, in which participants pay for an entertainment experience. Eighty-one percent of Americans think casino gaming is an acceptable activity for themselves or others. Slot machines remain the most popular casino game, according to 62 percent of respondents in the survey; a little more than one in five (21%) favor blackjack, followed by poker (7%), craps (3%) and roulette (3%) with significant support.

The Recession Has Taken Its Bite: The 2009 American Gaming Association (AGA) Survey of Casino Entertainment indicates that, while consumers are cutting back on their casino gaming during these tough economic times, the magnitude of the cutbacks is on par with other similar activities. Of those survey respondents who participate in casino gambling, sixty percent say they have cut back on the activity, the same rough proportion who have cut back on going out to restaurants and taking weekend trips.

The good news is that it was reported January 12th, 2010 by state regulators that Nevada casinos' gambling revenue in November rose for the first time in nearly two years, as casinos won nearly \$873.2 million from bettors. A 4 percent rise in revenue from November 2008 was the first year-over-year increase after 22 months of declines. Now granted that comparisons are made easy by the very weak numbers generated in the year-ago periods, the positive assessments should point to improving conditions.

Gaming Equipment Market Remains Vibrant: In 2008, the gaming equipment manufacturing sector produced \$12.7 billion in direct revenues, employed 29,600 people and paid salaries and wages of an estimated \$2.0 billion (AGEM 2008 Applied Analysis). Direct revenues increased 6.7% compared to 2007, as a result of increased demand for gaming-related equipment and expectations of continued casino expansions. The anecdotal reports suggest that 2009 shipments were roughly in-line to slightly better than 2008's level.

Ah, Then There's Always Government: The bit of "really" good news is that state governments are working their way into adding more and more venues, if not just plain opening up their borders to *de novo* casino construction, licensing and operation. For example, at least 14 states are considering proposals to allow or expand slots and casinos. For instance, in Kentucky, Texas and New York, lawmakers are talking about allowing video poker games or video slots at racetracks to help combat the states' tax shortfalls by bolstering revenues with gambling tax receipts. Massachusetts lawmakers may revive a proposal to legalize casinos there. Pennsylvania just recently approved table games for its casinos. Likewise, Ohio recently approved casinos. The climate for gambling change is as varied as the state where the discussion is held: there runs the entire gambit of solutions and alternatives under consideration. One thing is sure, tax revenues are down and public needs are up. This means gambling is an alternative under greater analysis.

GALAXY'S GROWTH STRATEGY

Management intends to capitalize on the strong acceptance of new platforms and concepts by increasing global market penetration and solidifying their position as the #2 choice in the industry. However, management also believes considerable potential exists via expansion into new, derivative revenue markets. For example, in 2010, Galaxy intends to launch a jackpot financing program supporting network-wide jackpots of 'life-changing' magnitude.

In a nutshell, management's four key strategies for growth are:

- 1 Expand into new (as well as expand the licenses within) jurisdictions;
- 2 Develop or acquire more premium games to be marketed to casinos;
- 3 Expand the Bonus Jackpot penetration;
- 4 Introduce the Bonus Jackpot - financing program to casinos.

The strategy for Galaxy is to continue layering onto its existing recurring revenue base with more tables, more jurisdictions, and more types of games in each location. Early indications on the approach are positive. While industry-leader, Shuffle Master, Inc (NASDAQ: SHFL—\$9.48) and other vendors in the industry are experiencing flat or declining revenue during this economic rough patch, Galaxy has been able to illustrate the benefits of its games and systems, showing strong top-line growth throughout the year, as well as in the most recently reported, quarter. Indeed, the third quarter was up +47% year-over-year, reaching \$782,000 in sales versus \$581,000. In addition, the Net Loss was at its lowest level at \$32,000.

The gaming industry is highly regulated, requiring the Company to obtain regulatory approval in jurisdictions prior to marketing and sales of its products. While this creates barriers to entry for competitors, it adds a serious wrinkle of complexity to the exercise of widening distribution and fully leveraging placement of gaming products. The Company is presently authorized in seventeen states and five Canadian provinces.

As we go to press, we do so on the heels of several announcements auguring greater opportunity for growth this year and next. First, Galaxy Gaming received a gaming license from the West Virginia Lottery Commission permitting it to install its table game products and systems into West Virginia casinos. There was also the announcement that GLXZ's Bonus Jackpot System had been approved for use in Mississippi casinos by the Mississippi Gaming Commission (the state has over 1,000 gaming tables in 31 casinos). This is a winning accomplishment. Lastly, the Company expanded its Bonus Jackpot System into California where the state is the world's largest tribal gaming jurisdiction with 58 Indian casinos now open. The announcement declared the first California installation of the Bonus Jackpot System platform at Casino Pauma located north of San Diego. This marks another major event.

As investors can imagine, increasing the penetration into a casino can have a profound impact on table revenues but an even more profound effect on the Company's Income Statement. Electronic gaming enhancements, such as the Bonus Jackpot System platform, generate substantially more revenue per unit per month for Galaxy than the premium games. And in turn, the premium games generate significantly more revenue per unit per month than the side bets. As a result, GLXZ's focus is to develop or acquire new electronic enhancements, systems and premium proprietary game content rather than additional side bet products to command higher royalties.

The company's economic case to upgrade is very compelling indeed -- management indicates the *monthly* per table average recurring revenues for each category:

1 Side Bets	\$82 (\$246/qtr)
2 Premium Games	\$356 (\$1068/qtr)
3 Electronic Systems	\$648 (\$1944/qtr)

The key still is to enter more jurisdictions. The whole growth battle plan is like the effectiveness of a virus. That is, a virus enters the host and takes over the host. An epidemic is where the virus spreads out among hosts, or better yet a pandemic where the virus is nationwide.

Once GLXZ has infiltrated the casino, its economics are proven to work to the operator's advantage. The casino usually works up the product chain to the system/Electronic Enhancement offerings. To help spread the profitability improvement, it always helps to expand the number of hosts while increasing the penetration up the game chain.

Maintaining profitability is a key goal of management, while they seek to optimize the current high demand of their products and in the process, rapidly expand recurring revenues. Careful guardianship is to be paid to profits and cash flow.

COMPETITION:

The market for proprietary table games, side bets and related systems is a small subset of the multi-billion dollar gaming equipment market. The clear #1 player in the space is Shuffle Master Gaming, Inc. SHFL reported roughly \$10.0 million in their QIV 2009 revenue for the proprietary game category and about \$38.7 million for the entire year. This represents that both operations figures were essentially flat with the 2008 returns.

Galaxy's management believes that SHFL 'owns' roughly 45% of the existing market for side bets and proprietary table games and systems with almost 5,600 systems in play. Galaxy is a distant but solid second place with an estimated 1,700 active tables. There are a half-dozen, small, mostly private companies that round out the proprietary gaming space with a few thousand tables amongst them all. The key players in the "industry" include:

- 1 **Galaxy Gaming** which offers Texas Shootout; Three Card Split; Emperor's Challenge; Lucky Ladies; Bonus Blackjack; Super Pairs; Suited Royals; Lucky 8 Baccarat.
- 2 **Shuffle Master Gaming** offering: 3 Card Poker; 4 Card Poker; Play Four Poker; Caribbean Stud; Let-it-Ride; Ultimate Texas Hold 'em; Texas Hold 'em Bonus; Casino War; Bet-the-Set; Fortune Pai Gow Poker; Royal Match; Dragon Bonus.
- 3 **TCS / John Huxley**: Casino Hold 'em; Perfect Pairs.
- 4 **Masque Publishing**: Spanish 21; Match the Dealer.
- 5 **Prime Table Games**: 3 Card Poker; Two Way Hold 'em; 21+3.
- 6 **Hop Bet**: Fire Bet (Craps)
- 7 **Gaming Entertainment**: Pai Gow Plus; Mini Pai Gow Poker.
- 8 **Canadian 21 Stook**: Lucky Lucky
- 9 **Paltronics / AC Coin**: Wheel of Madness; 21 Madness.

According to *Casino City's, "North American Gaming Almanac 2009"*, there are more than 28,000 table games in play in the US and Canada, with many thousand more in play on cruise ships offshore. Their survey of games, rooms, sites, casinos, etc. is as follows:

(Please Turn to Page 13)

Table Games Including Poker (United States and Canada)

	<u>#Rooms/Sites</u>	<u>Percentage</u>
Card Rooms	2,745	9.6%
Casino Cruises	229	0.8%
Casinos.....	15,197	53.4%
Dog Tracks.....	388	1.4%
Horse Tracks	96	0.3%
Jai Alai Frontons.....	119	0.4%
Racinos.....	1,005	3.5%
Tribal Casinos.....	<u>8,679</u>	<u>30.5%</u>
Total	<u>28,458</u>	<u>100.0%</u>

Source: *Casino City's North American Gaming Almanac*

The 2008 AGEM study projects that the US gaming industry will add another 3,400 tables between 2008 and 2013 (+ 12.1%). Given the strong acceptance and compelling economics of its platforms, as well as the 'hungry' revenue environment for operators, Galaxy intends to aggressively build share and expand its market presence.

STRONG, EXPERIENCED MANAGEMENT TEAM

Since Mr. Saucier has formed GLXZ and moved the whole operation to the Gaming Capital of the World, one of his top priorities has been to build an executive team around him to match the prospects of the opportunity facing the Company. Saucier has successfully attracted talent from other gaming, data business system and casino operations to augment his own capabilities, as well as even securing talent from Galaxy's primary competitor, Shuffle Master. For a company the size of GLXZ, the team that is being assembled is already impressive and appears as if it has the capability to help forward the operation to several steps larger in scale. From an outsider's perspective, it appears that GLXZ only requires a management officer/specialist in handling more of the regulatory aspects of the operation: Granted, with Mississippi and California recently adding the Bonus Jackpot System to the Company's roster of opportunities, there seems to be sufficient managerial coverage; we're certain that responsibilities here grow geometrically with the size of the Firm. Here is a brief overview of the team:

Robert B. Saucier, President, CEO, Director and the founder of the Company: Primary responsibilities include product development, strategic planning, developing acquisition strategies and investor relations. Mr. Saucier has founded and grown five successful start-up companies including the Mars Hotel Corporation, which developed and managed the Mars Hotel and Casino, Washington's first, non-tribal casino. Previously, he founded and served as the President and Chairman of International Pacific, which was presented the prodigious INC. 500 award under his guidance. He also founded and led Titan International, Inc., which specialized in electronic security and surveillance systems. Throughout his career, Mr. Saucier has consulted with and invested in numerous business ventures and real estate development projects.

William O'Hara, Chief Operating Officer and Director: Joined Galaxy Gaming in February, 2008: He is responsible for the Company's daily operations including leading the sales team. Previously, he was employed by Mack Financial Group as Director of Sales and Marketing. In 2000, Mr. O'Hara joined PDS Gaming as the Senior VP of their newly formed electronic table games division. In 1998, he joined Casinovations, Inc. as Senior VP of Operations and President of its Mississippi subsidiary. Mr. O'Hara began his gaming industry career as the first employee of Shuffle Master in 1991 and relocated to Las Vegas in 1992 to head up that company's sales, service and marketing.

Andrew Zimmerman, Chief Financial Officer, Corporate Secretary and Treasurer: Mr. Zimmerman joined Galaxy in November, 2009 after leaving the CFO position of David Saxe Productions, a producer of various shows on the Las Vegas Strip. Prior to that engagement, Andrew served for ten years as the CFO and Treasurer

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of Mission Industries. Mr. Zimmerman's gaming industry experience includes serving as the CFO for Palace Casinos in Biloxi, Mississippi, the Bud Jones Company (a table game supply company), and Konami Gaming, (slot manufacturer). He is a graduate of Arizona State University and a CPA. He also serves on the board of a large automotive finance company.

Willie D. (Dan) Evans, Technology Development Manager: Mr. Evans joined the Company in November 2006 after serving as a technology consultant through his company Dragon 9 Ventures, which he founded. Previously, he served at Zynx Networks where he held the positions of Chief Information Officer and VP of Sales. Prior to that, Mr. Evans was Strategic Product Marketing Manager for Ardent Software and Marketing Manager for Sun Microsystems.

Robert Pietrosanto, Senior Sales Specialist: Mr. Pietrosanto joined Galaxy in October, 2006 and has over 25 years of management experience in gaming operations and manufacturing. He previously served as Senior VP of Sales at VendingData Corporation (formerly CasinoVations.) Prior to that, he was one of the pioneering members of ShuffleMaster Gaming, playing significant roles in both sales and field service operations.

RISK FACTORS

- 1 Negative working capital - Galaxy Gaming has operated with negative working capital and has a history of operating losses... These losses are coming down and it appears that GLXZ should turn profitable in Q1-2010 or Q2-2010.
- 2 Proprietary technology - The Company relies on proprietary nature of its technology, and the inability to maintain this proprietary nature may adversely impact the business.
- 3 Need for additional capital - The Company will require additional capital to achieve its growth and operating assumptions. While we are assuming that the Company will be able to obtain equity capital on favorable terms, there can be no assurance of such occurrence.
- 4 Regulatory - The Company is required to maintain its existing licenses and to seek the necessary licenses, approvals, qualifications and findings of suitability for the Company, its products and its management personnel in new jurisdictions in anticipation of sales opportunities. There can be no assurances that the Company will be able to maintain its existing licenses or obtain new licenses, which could have a material adverse affect on the business.
- 5 Product approvals - Each Company product is subject to extensive testing and reviews by multiple state jurisdictional or third party laboratories... the degree and extent of the review can vary greatly based on numerous factors.
- 6 Competition - Galaxy faces intense competition in the gaming equipment industry, often from companies with substantially greater resources.
- 7 Economic and market uncertainties - Galaxy is subject to economic and market uncertainties that can adversely impact business operations... since gaming is considered a form of the entertainment industry, it may be possible that the Company could be more severely impacted by the economy if it were to suffer another leg-down in activity.
- 8 Control - Owners and officers control more than 70% of issued and outstanding GLXZ shares and hence possess a substantial controlling interest in the Company.

RECENT EVENTS

January 13, 2010 - Galaxy Gaming Bonus Jackpot System Approved in Mississippi....

This state is an important component of the Company's expansion plans with more than 1,000 table games in 31 casinos. Furthermore, Mississippi is an important regional market with long-standing customer relationships in place that provide fertile ground for testing the Company's revenue enhancement strategies. Just ten months ago, GLXZ installed its first Bonus Jackpot System in a successful Washington State performance trial. GLXZ now has over 100 Bonus Jackpot Systems installed.

January 6, 2010 - Galaxy Gaming Expands its Bonus Jackpot System Installation Base into California...

Management announced on this day that it had initiated the roll-out of its BJS into California with the world's largest tribal gaming jurisdiction of 58 casinos and 90 commercial card rooms. The first California BJS installation was at the Casino Pauma located north of San Diego.

December 8, 2009 - Galaxy Gaming Opens World-Class Data Center.... The Data Center will collect and process data from casino gaming tables worldwide and is a major component to accomplishing Galaxy Gaming's goal of connecting live table games to a globally distributed data operations center. The accomplishment is possible as the result of a technology business relationship with Amazon Web Services, a subsidiary of Amazon.com. The Data Center is designed to work with an upcoming release of the Company's BJS system, code-named "*Andromeda Series*".

Once installed, the Andromeda Series, in concert with the new Data Center, will allow Galaxy Gaming to link gaming tables in multiple casinos and cruise ships throughout the world, which in turn is expected to create the largest and fastest growing jackpots in table game history. It is expected that the excitement and allure of life-altering jackpots will increase play and garner more appeal for the Company's electronically-enhanced platforms.

November 17, 2009 - Galaxy Gaming Appoints New CFO and New Board Member.... Galaxy today announced that it has hired Andrew Zimmerman to fill the position of the Company's Chief Financial Officer. Mr. Zimmerman will additionally serve as the Company's Secretary and Treasurer. The Company also added Dan Scott, a gaming industry veteran who served as CFO at Caesar's Palace and MGM, to its Board of Directors.

November 5, 2009 - Galaxy Gaming Announces Record Breaking Third Quarter; PIPE Financing Over-Subscribed

- 1 3Q 2009 revs were \$782.5 thousand vs. \$533.4 thousand (+47%) last year;
- 2 Gross profit was \$691 thousand vs. \$512 thousand (+35%) last year; margin percentage declined to 88.4% from 96.1% last year due to addition of lower margin product sales revenues from the BJS;
- 3 GLXZ reported its first EBITDA positive quarter since going public last year - \$15,327 for 3Q 2009 compared with a loss of \$50,406 last year.
- 4 GLXZ completed the installation of 86 BJS during the period, compared with 3 in Q1 and 31 in Q2 2009.
- 5 Recurring revenue increased 22% in the period.
- 6 Current ratio for the period was 0.72x, up from 0.24x at 2008 year end, reflecting predominantly increases in inventories and accounts receivable as a result of increased sales which were funded with long term liabilities and equity infusions.
- 7 Subsequent to the close of the third quarter, GLXZ completed a private offering with institutional investors (PIPE) that was oversubscribed, raising \$589,000 through the issuance of 1,682,857 common shares and 841,428 warrants.
- 8 The funding closed November 2, 2009 and the proceeds distributed within the same month. The capital is targeted for funding continued top line growth, working capital and expenses associated increased activity.
- 9 Third quarter LT debt ended at \$1.18 million, compared with \$1.24 million at December 31, 2008 (-4.8%).
- 10 Shareholder's deficit was (\$772,774) compared to (\$1,691,203) at 2008 year end.

GALAXY GAMING VALUATION THOUGHTS

Galaxy Gaming Inc. has made excellent operating strides since going public in early 2009. Its revenues have posted 47% year-over-year growth in the most recent third quarter, while establishing a 38% increase step-up in

trailing twelve month revenues for the like period. This is particularly impressive performance when measured against the backdrop of the economy and the rather tepid condition of the industry. Obviously, this success stems from Galaxy having the kind of proprietary games that add incrementally to casino returns right off the bat—and at prices for their clients that are reasonable. The Company is expanding in new geographic regions and with customers building their overall market penetration. Lastly—step-by-step and hand-by-hand-- game royalties are adding to the Company’s top-line as well as improving the overall operating return of the business.

As we look to 2010, their new products are building a strong position within their clients’ casinos creating ever greater potential for the roll-out of the Andromeda platform (the automated Bonus Jackpot System), which is scheduled to be introduced in Q1 2010. As we mentioned in the opening, the Bonus Jackpot not only creates an added “game layer” of play for the casino and GLXZ, but works when networked together to show a cumulative, “life altering” jackpot amount to advertise greater interest in playing the new wager. We believe that this added system should help further augment Galaxy’s growth in the New Year.

When comparing GLXZ with competitors in the table game sector, we have identified two publicly-traded, comparable operations: Shuffle Master, Inc., which operates a proprietary table game division that posted \$38.7 million in TTM revenue (ended October 31, 2009) that is of a similar nature to Galaxy Gaming; and DEQ Systems Corp., a Canadian gaming company with a very similar business model (Other OTC: DEQSF.PK – US \$0.38).

Valuation - Comparable Gaming Companies

Company Name	Recent Price (1/27/2010)	Shares Outst. (mms)	Revenues TTM (mms)	EBITDA TTM(mms)	Cash & Equiv.	Debt	TTM EV/Revs	TTM EV/EBITDA
Shuffle Master Inc. (SHFL)	\$ 8.90	53.61	\$ 179.43	\$ 55.43	\$ 7.84	\$ 93.21	3.13 x	10.15
DEQ Systems (OTCPK: DEQSF.PK)*	\$ 0.38	69.59	\$ 4.38	\$ 0.97	\$ 5.74	\$ -	4.77 x	21.56
							Average	3.95 x
								15.85

*CN\$ converted to US\$ at 11/30/2009 (Can \$/US \$) Exch Rate = 0.9457

Source: Bank of Canada

In our view, DEQ provides the best publicly-traded, direct comparable in several aspects;

- 1 Similar, albeit slightly larger revenue base at TTM revenue CN\$4.63 million (US\$4.38 million at 11/30/09 conversion) versus an expected US\$2.8 million for GLXZ.
- 2 Producer of table game bonusing technology, including side bet bonusing games with progressive and random jackpot prizes, along with a host of related products and technologies for table games.
- 3 DEQ charges a royalty and licensing fee arrangements similar to those of GLXZ and possesses intellectual property and distribution rights of a similar nature.
- 4 Similarly high gross profit margins at 90% for the nine months through August 31, 2009, providing strong fixed cost leverage.
- 5 Products and solutions from DEQ are present in more than 200 casinos in over 30 countries.

So, DEQ has a better balance sheet, but lower revenue growth than Galaxy. It trades at a premium to SHFL on both EV/Revs and EV/EBITDA. In our view, the mean values for EV/EBITDA and EV/REVS are more reflective of flat- to-low growth scenarios than what we are contemplating for GLXZ over the next eighteen months.

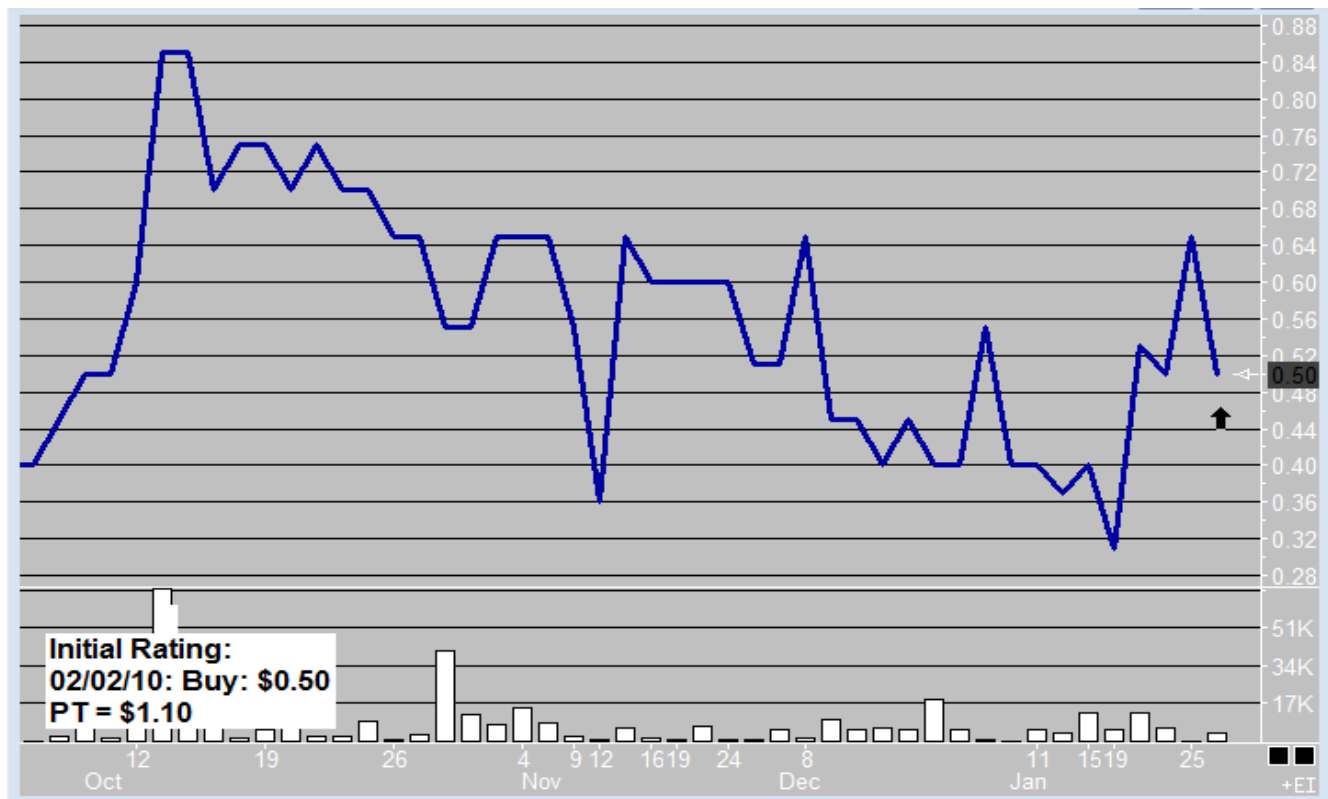
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Granted SHFL is considered the industry darling and is orders of magnitude larger than Galaxy with a behemoth balance sheet and market presence by comparison but revenue-sluggish growth. If anything, they might honestly consider GLXZ far more interesting to buy.

On further reflection, we also noted the similarities in the business model between GLXZ and many emerging software companies: high margins; recurring revenues; proprietary intellectual property; customer productivity orientation and rapid growth. Emerging software operations such as Salesforce.com (NASDAQ: CRM - \$65.18); Athena Health (NASDAQ: ATHN - \$40.90); Taleo (NASDAQ: TLEO - \$20.90); and Constant Contact (NASDAQ: CTCT - \$17.53) have traded recently at EV/EBITDA multiples north of 20-times and an EV/Revs of 4 - 7 times.

Based on these kinds of metrics, one could envision GLXZ selling at an EV of 5.5 times our midpoint revenue/share estimate of \$0.20. This produces roughly a target price of \$1.10 (+120%) for Galaxy by late 2010 or early 2011. Again, the numbers could be conservative if the Bonus Jackpot System is adopted more quickly than we have incorporated into our model and if gaming play hand royalties also turn higher due to the successful systematic advertizing of the jackpot bonus.

GLXZ Price Chart



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Galaxy Gaming, Inc.

Detailed Income Statement Model - Proforma for Continuing Operations

(\$ in thousands except for per share amounts)

							Estimates ->						
	CY2007	3/31/08	6/30/08	9/30/08	12/31/08	CY2008	3/31/09	6/30/09	9/30/09	12/31/09E	CY2009E	CY2010E	CY2011E
Gross revs	1,970	471	502	533	561	2,067	609	674	782	744	2,809	5,067	9,794
COGs	230	33	42	21	23	119	24	64	91	52	231	668	1,367
Gross Profit	1,739	438	460	512	538	1,948	585	610	691	692	2,578	4,400	8,427
Gross Margin	88.3%	93.0%	91.6%	96.1%	95.9%	94.2%	96.1%	90.5%	88.4%	93.0%	91.8%	86.8%	86.0%
Oper. Exp.	1,822	584	597	562	616	2,359	620	632	676	690	2,618	3,900	7,200
Oper. Exp. %	92.5%	124.0%	118.9%	105.4%	109.8%	114.1%	101.8%	93.8%	86.4%	92.7%	93.2%	77.0%	73.5%
Net Oper. Profit (Loss)	(83)	(146)	(137)	(50)	(54)	(411)	(35)	(22)	15	2	(40)	500	1,227
Net Oper. Profit %	-4.2%	-31.0%	-27.3%	-9.4%	-9.6%	-19.9%	-5.7%	-3.3%	1.9%	0.3%	-1.4%	9.9%	12.5%
Other Inc. (Exp.)	(1)	(20)	(22)	(33)	(33)	(93)	(33)	(33)	(47)	(47)	(160)	(200)	(330)
Net profit (loss) Bef. Inc. tax	(84)	(166)	(169)	(83)	(87)	(504)	(68)	(55)	(32)	(45)	(200)	300	897
Prov. for Inc. Tax	-	-	-	-	-	-	-	-	-	-	-	-	322.81
Taxes %	-	-	-	-	-	-	-	-	-	-	-	-	36.0%
Net Loss from Cont. Ops	(84)	(166)	(169)	(83)	(86)	(504)	(68)	(55)	(32)	(45)	(200)	300	574
Net Margin %	-4.3%	-35.2%	-33.7%	-15.6%	-15.3%	-24.4%	-11.2%	-8.2%	-4.1%	-6.0%	-7.1%	5.9%	5.9%
Wtd avg shares out. FD	162,862	162,862	162,862	162,862	162,862	162,862	15,863,085	31,233,756	31,381,144	33,200,000	27,919,496	35,000,000	35,800,000
EPS from continuing ops	(0.00)	(1.01)	(1.04)	(0.51)	(0.53)	(3.09)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	0.01	0.02
Revs YTY % Chg	NA	NA	NA	NA	NA	4.9%	29.3%	34.3%	46.7%	32.7%	35.9%	80.4%	93.3%
Oper. Exp. YTY % Chg	NA	NA	NA	NA	NA	29.5%	6.2%	5.9%	20.3%	12.0%	11.0%	49.0%	84.6%
Oper. Profit (Loss) YTY % Chg	NA	NA	NA	NA	NA	395.2%	-76.0%	-83.9%	-130.0%	-104.5%	-90.4%	NM	145.6%
Net Income (Loss) YTY % Chg	NA	NA	NA	NA	NA	500.0%	-59.0%	-67.5%	-61.4%	-48.2%	-60.4%	-250.1%	91.6%
EPS from cont. ops. YTY % C	NA	NA	NA	NA	NA	NM	NM	NM	NM	NM	NM	NM	87.3%
% of Annual Revs	100.0%	22.8%	24.3%	25.8%	27.1%	100.0%	21.7%	24.0%	27.8%	26.5%	100.0%	100.0%	100.0%
Tables in play EOP	NA	1,172	1,300	1,452	1,521	1,521	1,574	1,613	1,671	1,686	1,821	2,166	2,801
Proj. New NonPremium tables						-	-	-	-	-	-	175	275
Proj. New BJS (60/40 old/new)						-	3	31	86	15	135	425	1,000
Avg Tables in Play	NA	1,136	1,236	1,376	1,487	NA	1,548	1,594	1,642	1,679	1,604	1,926	2,484
\$/Table Period Avg		\$ 414.61	\$ 406.15	\$ 387.35	\$ 377.40		\$ 393.54	\$ 422.97	\$ 476.25	\$ 443.40	\$ 1,751.95	\$ 2,631.00	\$ 3,943.59
Gross Profit/table		385.56	372.17	372.09	361.92		378.03	382.81	420.83	\$ 412.52	\$ 1,607.99	\$ 2,284.30	\$ 3,393.08

Sources: GLXZ documents and CFS estimates

Galaxy Gaming, Inc.

Balance Sheet Model

	Estimated->				
	12/31/2008	9/30/2009	12/31/2009E	12/31/2010E	12/31/2011E
Cash	25,885	9,363	363,363	303,958	373,463
AR-trade, net	234,315	431,791	450,000	811,705	1,568,834
Misc. receivables	12,545	45,184	46,000	82,974	160,370
Prepaid expenses	19,773	180,464	200,000	360,758	697,260
Inventory	46,177	133,877	150,000	270,568	522,945
Note rec.-curr. ptn.	69,617	56,428	60,000	60,000	60,000
Curr. assets of disc'd ops	12,279	0	0	0	0
Total Current Assets	420,591	857,107	1,269,363	1,889,963	3,382,871
Prop. and Equip., net	23,389	34,016	34,016	61,358	118,590
Real Est. Inv.-disc'd ops	100,000	0	0	0	0
Other Assets					
Intell prop., net	133,919	128,641	126,881	119,841	112,801
Intang. assets	150,000	150,000	150,000	150,000	150,000
Note receiv.-LT	435,744	418,450	412,686	355,000	331,944
Total Other Assets	719,663	697,091	689,567	624,841	594,745
TOTAL ASSETS	1,263,643	1,588,214	1,992,946	2,576,161	4,096,206
LIAB. AND STKHLDRS' DEFICIT					
Current Liabilities					
Accounts payable	146,336	335,833	340,000	613,288	1,185,341
Accr'd exps. & taxes	266,519	156,266	160,000	288,606	557,808
Deferred rev.	196,579	203,592	205,000	369,777	714,691
Due to employee	31,639	0	0	0	0
Notes payable-rel'd party	415,195	415,295	416,000	200,000	0
Conv'ble notes payable		50,000	50,000	0	0
Curr. portion LT debt	23,014	21,836	22,000	22,000	0
Current liabs-disc. ops	638,284	0	0	0	0
Total Curr. Liabs	1,717,566	1,182,822	1,193,000	1,493,670	2,457,840
LT Debt					
Note payable	1,192,280	1,178,166	1,173,462	1,154,646	1,135,830
Notes payable-disc. ops	45,000	0	0	0	0
Total LT Debt	1,237,280	1,178,166	1,173,462	1,154,646	1,135,830
TOTAL LIABILITIES	2,954,846	2,360,988	2,366,462	2,648,316	3,593,670
STKHLDRS' DEFICIT					
Common stock	163	31,059	33,200	35,000	35,800
Unissued shares	5,830				
Additional paid in capital	8,818,647	570,741	1,167,441	1,167,441	1,167,441
Accum'd deficit - GGI	(1,120,198)	(1,374,574)	(1,574,157)	(1,274,597)	(700,706)
Accum'd deficit-disc. ops	(9,395,645)	0	0	0	0
TOTAL STKHLDRS' DEFICIT	(1,691,203)	(772,774)	(373,516)	(72,156)	502,535
TOTAL LIABS AND STKHLDRS' DE	1,263,643	1,588,214	1,992,946	2,576,161	4,096,206
Metrics					
Quick Ratio	0.15	0.37	0.68	0.75	0.79
Current Ratio	0.24	0.72	1.06	1.27	1.38
AR Days	37.59	49.69	54.42	57.67	57.67
Debt/Equity	-73.2%	-152.5%	-314.17%	-1600.21%	226.02%
ROA	NM	NM	NM	13.11%	25.50%
ROE	NM	NM	NM	-134.43%	266.69%

Sources: GLXZ documents and CFS estimates

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- | | |
|-------------------|---|
| Buy | Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months. |
| Accumulate | Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range. |
| Hold | Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market. |
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- | | |
|-----------------|--|
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