Galaxy Gaming, Inc.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 000-30653

Galaxy Gaming, Inc.

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

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

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

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	x

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

State the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 39,315,591 common shares as of May 16, 2016.

GALAXY GAMING, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

GALAXY GAMING, INC.

CONDENSED BALANCE SHEETS

(Unaudited)

ASSETS	March 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$1,077,985	$570,623
Restricted cash	46,815	97,859
Accounts receivables, net allowance for bad debts of $31,000 and $30,944	1,750,430	1,828,669
Prepaid expenses	56,177	106,338
Inventories, net	456,385	411,700
Deferred tax asset	10,477	43,017
Other current assets	—	2,489
Total current assets	3,398,269	3,060,695
Property and equipment, net	278,012	298,877
Products leased and held for lease, net	133,275	134,485
Intangible assets, net	12,889,324	13,261,636
Goodwill	1,091,000	1,091,000
Deferred tax assets, net of current portion	—	82,562
Other assets, net	41,793	41,793
Total assets	$17,831,673	$17,971,048
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,310,608	$1,421,848
Accrued expenses	880,018	823,964
Income taxes payable	305,123	170,331
Deferred revenue	813,983	717,690
Jackpot liabilities	84,201	106,671
Capital lease obligations, current portion	49,366	59,196
Long-term debt, current portion	4,565,293	4,648,120
Deferred rent, current portion	8,382	6,197
Total current liabilities	8,016,974	7,954,017
Deferred rent, net of current portion	50,001	52,643
Capital lease obligations, net of current portion	70,397	78,008
Long-term debt, net of debt discount, net of current portion	6,824,638	7,436,171
Total liabilities	14,962,010	15,520,839
Commitments and Contingencies (See Note 11)		
Stockholders' equity		
Preferred stock, 10,000,000 shares, $.001 par value preferred stock authorized; 0 shares issued and outstanding	—	—
Common stock, 65,000,000 shares authorized; $.001 par value 39,315,591 and	39,316	39,216

39,215,591 shares issued and outstanding		
Additional paid-in capital	2,984,312	2,963,841
Accumulated deficit	(413,079)	(792,446)
Accumulated other comprehensive income	259,114	239,598
Total stockholders’ equity	2,869,663	2,450,209
Total liabilities and stockholders’ equity	$17,831,673	$17,971,048

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

GALAXY GAMING, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	FOR THE THREE MONTHS ENDED	
	March 31, 2016	2015
Revenue:		
Product leases and royalties	$2,981,820	$2,578,310
Product sales and service	2,279	5,783
Total revenue	2,984,099	2,584,093
Costs and expenses:		
Cost of ancillary products and assembled components	21,640	23,289
Selling, general and administrative	1,652,303	1,579,073
Research and development	79,342	152,987
Depreciation	43,662	41,293
Amortization	372,312	378,073
Share-based compensation	20,471	18,870
Total costs and expenses	2,189,730	2,193,585
Income from operations	794,369	390,508
Other income (expense):		
Interest income	56	5,885
Interest expense	(258,195)	(279,939)
Total other expense	(258,139)	(274,054)
Income before provision for income taxes	536,230	116,454
Provision for income taxes	(156,863)	(53,595)
Net income	$379,367	$62,859
Basic income per share	$0.01	$0.00
Diluted income per share	$0.01	$0.00
Weighted average shares outstanding:		
Basic	39,351,147	38,990,591
Diluted	39,455,591	39,015,591

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

GALAXY GAMING, INC.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	FOR THE THREE MONTHS ENDED	
	March 31,	
	2016	2015
Net income	$379,367	$62,859
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	19,516	180,749
Total comprehensive income	$398,883	$243,608

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

GALAXY GAMING, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	FOR THE THREE MONTHS ENDED	
	March 31, 2016	2015
Cash flows from operating activities:		
Net income for the period	$379,367	$62,859
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	43,662	41,293
Amortization expense	372,312	378,073
Amortization of debt discount	52,158	52,158
Deferred income tax provision	156,863	53,595
Share-based compensation	20,471	18,870
Changes in operating assets and liabilities:		
Decrease (increase) in restricted cash	51,044	(7,839)
Decrease in accounts receivable	76,900	13,125
Decrease (increase) in other current assets	2,489	(6,155)
(Increase) decrease in inventory	(54,958)	3,487
Decrease (increase) in prepaid expenses	50,161	(6,171)
(Decrease) increase in accounts payable	(111,065)	8,491
Increase in income taxes payable	134,792	—
Increase (decrease) in accrued expenses	56,598	(56,799)
Increase in deferred revenue	96,293	3,279
(Decrease) increase in jackpot liabilities	(22,470)	14,988
(Decrease) increase in deferred rent	(457)	1,758
Net cash provided by operating activities	1,304,160	575,012
Cash flows from investing activities:		
Acquisition of property and equipment	(11,314)	(7,895)
Net cash used in investing activities	(11,314)	(7,895)
Cash flows from financing activities:		
Principal payments on capital leases	(17,441)	(16,085)
Principal payments on notes payable	(766,081)	(841,203)
Net cash used in financing activities	(783,522)	(857,288)
Effect of exchange rate changes on cash	(1,962)	(9,380)
Net increase (decrease) in cash and cash equivalents	507,362	(299,551)
Cash and cash equivalents – beginning of period	570,623	560,184
Cash and cash equivalents – end of period	$1,077,985	$260,633
Supplemental cash flow information:		
Cash paid for interest	$185,718	$279,939
Inventory transferred to leased assets	$10,273	$—
Cash paid for income taxes	$5,000	$—
Supplemental non-cash financing activities information:		
Effect of exchange rate on note payable in foreign currency	$19,663	$288,601

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

GALAXY GAMING, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

Unless the context indicates otherwise, references to "Galaxy Gaming, Inc.," "we," "us," "our," or the "Company," refers to Galaxy Gaming, Inc., a Nevada corporation. "GGLLC" refers to Galaxy Gaming, LLC, a Nevada limited liability company that was a predecessor of the Company's business, but is not directly associated with Galaxy Gaming, Inc.

Description of business. We are an established global gaming company specializing in the design, development, manufacturing, marketing and acquisition of proprietary casino table games and associated technology, platforms and systems for the casino gaming industry. We are a leading supplier of gaming entertainment products worldwide and provide a diverse offering of quality products and services at competitive prices, designed to enhance the player experience.

Casinos use our proprietary products to enhance their gaming floor operations and improve their profitability, productivity and security, as well as offer popular cutting-edge gaming entertainment content and technology to their players. We market our products to land-based, riverboat and cruise ship and internet gaming companies. The game concepts and the intellectual property associated with these games are typically protected by patents, trademarks and/or copyrights. We market our products primarily via our internal sales force to casinos throughout North America, the Caribbean, the British Isles, Europe, Africa and to cruise ships and internet gaming sites worldwide. We currently have an installed base of our products on over 5,000 gaming tables located in over 600 casinos, which positions us as the second largest provider of proprietary table games in the world.

Revenues consist of primarily recurring royalties received from our clients for the licensing of our game content and other products. These recurring revenues generally have few direct costs thereby generating high gross profit margins. In lieu of reporting as gross profit, this amount would be comparable to revenues less cost of ancillary products and assembled components on our financial statements. Additionally, we receive non-recurring revenue from the sale of associated products.

We group our products into four product categories we classify as "Proprietary Table Games," "Enhanced Table Systems," "e-Tables" and "Ancillary Equipment." Our product categories are summarized below. Additional information regarding our products may be found on our web site, www.galaxygaming.com. Information found on the web site should not be considered part of this report.

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

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

Our Bonus Jackpot System facilitates a jackpot players can win by making a qualified wager. The jackpot is awarded to a player (or players) upon obtaining a specific triggering event. Our Bonus Jackpot System can facilitate either a fixed, adjustable or progressive style jackpot.

Our Inter-Casino Jackpot System leverages the abilities of our Bonus Jackpot System to connect and/or aggregate bonus or progressive jackpots from multiple casinos into a common network.

MEGA-Share is a game-play methodology invented by us that allows a player of one of our table games to share in the winnings of a jackpot together with other players. An example of this concept would be when multiple table game players are playing in a casino and one player obtains a winning hand entitling him or her to a jackpot. This jackpot winning event will trigger a second MEGA-Share jackpot that is divided among all players who made a MEGA-Share qualified wager.

e-Tables. In 2011, we licensed the worldwide rights (excluding Oklahoma, Kentucky and the Caribbean), to the TableMAX e-Table system. Simultaneously we obtained the e-Table rights to the casino table games Caribbean Stud, Caribbean Draw, Progressive Blackjack, Texas Hold'em Bonus and Blackjack Bullets. See Note 16. The TableMAX e-Table system is a fully automated, dealer-less, multi-player electronic table game platform. These platforms allow us to offer our Proprietary Table Game content in markets where live table games are not permitted. Our e-Table product enables automation of certain components of traditional table games such as data collection, placement of bets, collection of losing bets and payment of winning bets. This automation provides benefits to both casino operators and players, including greater security and faster speed of play, reduced labor and other game related costs and increased profitability.

Ancillary equipment. In 2014, we entered into an exclusive license for the worldwide rights to a patented technology that detects invisible card markings. With this technology, we developed SpectrumVision, which uses highly specialized and customized optics to see markings on playing cards that would otherwise be invisible or undetectable to the naked eye and surveillance cameras. SpectrumVision will be leased for a monthly fee or outright sale. Units sold may have a service contract issued in conjunction with the sale.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of our significant accounting policies is presented to assist in understanding our financial statements. The financial statements and notes are representations of our management team, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been consistently applied to the preparation of the financial statements.

Basis of presentation. The accompanying unaudited interim condensed financial statements include the accounts of Galaxy Gaming, Inc. and are stated in conformity with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. These unaudited interim condensed financial statements should be read in conjunction with the financial statements and the related notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 30, 2016.

Basis of accounting. The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. GAAP. Revenues are recognized as income when earned and expenses are recognized when they are incurred. We do not have significant categories of cost as our income is recurring with high margins. Expenses such as wages, consulting expenses, legal, regulatory and professional fees and rent are recorded when the expense is incurred.

Cash and cash equivalents. We consider cash on hand, cash in banks, certificates of deposit, and other short-term securities with maturities of three months or less when purchased, as cash and cash equivalents. Our bank accounts are deposited in insured institutions. The funds are insured up to $250,000 per account. To date, we have not experienced uninsured losses.

Restricted cash. We are required by gaming regulation to maintain sufficient reserves in restricted accounts to be used for the purpose of funding payments to winners of our jackpots offered. Compliance with restricted cash requirements for jackpot funding is reported to gaming authorities in various jurisdictions.

Inventory. Inventory consists of ancillary products such as signs, layouts, and bases for the various games and electronic devices and components to support our Enhanced Table Systems. Inventory value is determined by the average cost method and management maintains inventory levels based on historical and industry trends. We regularly assess inventory quantities for excess and obsolescence primarily based on forecasted product demand. See Note 4.

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

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

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

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

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

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

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

Leases. We recognize rent expense for operating leases on a straight-line basis (including the effect of reduced or free rent and rent escalations) over the applicable lease term. The difference between the cash paid to the landlord and the amount recognized as rent expense on a straight-line basis is included in deferred rent. The landlord of our corporate headquarters financed leasehold improvements in the amount of $150,000. See Note 11. These improvements have been recorded as a capital lease and amortized over the life of the lease.

Concentration of risk. We are exposed to risks associated with clients who represent a significant portion of total revenues. For the three months ended March 31, 2016 and 2015, respectively, we had the following client revenue concentrations:

		2016	2015
	Location	Revenue	Revenue
Client A	North America	14.2%	15.3%
Client B	North America	6.7%	1.6%
Client C	North America	6.4%	5.3%
Client D	United Kingdom	5.7%	6.7%

We are also exposed to risks associated with the expiration of our patents. Domestic and international patents for two of our products expired in June 2015. The patents account for approximately $1,453,393 or 49% of our revenue for the three months ended March 31, 2016.

Revenue recognition. Revenue is primarily derived from the licensing of our products and intellectual property. Consistent with our strategy, revenue is generated from negotiated month-to-month recurring licensing fees or the performance of our products, or both. We also, occasionally, receive a one-time sale of certain products and/or reimbursement of our manufactured equipment.

Substantially, all of our revenue is recognized when it is earned. Depending upon the product and negotiated terms, our clients may be invoiced monthly in advance, monthly in arrears or quarterly in arrears for the licensing of our products. If billed in advance, the advance billings are recorded as deferred revenue on our balance sheet. If billed in arrears, we recognize the corresponding preceding period’s revenue upon invoicing at the subsequent date. Generally, we begin earning revenue with the installation or “go live” date of the associated product in our clients’ establishment. The monthly recurring invoices are based on executed agreements with each client.

Additionally, clients may be invoiced for product sales at the time of shipment or delivery of the product. Revenue from the sale of our associated products is recognized when the following criteria are met:

(1) Persuasive evidence of an arrangement between us and our client exists;
(2) Shipment has occurred;
(3) The price is fixed and/or determinable; and
(4) Collectability is reasonably assured or probable.

The combination of hardware and software included in our Enhanced Table Systems and e-Tables is essential to the operation of the respective systems. As such, we do not segregate the portion of revenue between manufactured equipment and any software or electronic devices needed to use the equipment when the system is provided. We do not market the software separately from the equipment.

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

Research and development. We incur research and development ("R&D") costs to develop our new and next-generation products. Our products reach commercial feasibility shortly before the products are released and therefore R&D costs are expensed as incurred. Employee-related costs associated with product development are included in R&D costs.

Foreign currency translation. For non-US functional accounts, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income and expense accounts at the average exchange rates for the year. Resulting currency translation adjustments are recorded as a separate component of shareholders' equity. We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses being included in results of operations. Realized foreign currency transaction gains and losses have not been significant for any period presented.

Income taxes. We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. Adjustments to the valuation allowance increase or decrease our income tax provision or benefit.

We follow the provisions contained in Accounting Standards Codification ("ASC") Topic 740, Income Taxes. We recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Judgment is required in determining the provision for incomes taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, our tax returns are subject to audit by various tax authorities. Although we believe that our estimates are reasonable, actual results could differ from these estimates

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

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

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

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

Recently adopted accounting standards – not adopted

We believe there is no additional new accounting guidance adopted, but not yet effective, which is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on its financial reporting.

NOTE 3. PREPAID EXPENSES

Prepaid expenses consisted of the following at:

	March 31, 2016	December 31, 2015
Insurance	$17,376	$ 13,408
Compliance	11,981	39,097
IT systems	10,541	19,041
Professional services	10,025	7,792
Other prepaid expenses	2,870	372
Rent	1,989	1,989
Travel	1,395	7,780
Trade show expense	—	6,000
Dues & subscriptions	—	10,859
Prepaid expenses	$56,177	$ 106,338

NOTE 4. INVENTORY

Inventory consisted of the following at:

	March 31, 2016	December 31, 2015
Raw materials and component parts	$266,563	$ 231,709
Finished goods	175,701	170,528
Work-in-process	44,121	39,463
	486,385	441,700
Less: inventory reserve	(30,000)	(30,000)
Inventory	$456,385	$ 411,700

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, consisted of the following at:

	March 31, 2016	December 31, 2015
Furniture and fixtures	$215,911	$ 211,411
Leasehold improvements	156,843	156,843
Automotive vehicles	94,087	94,087
Computer equipment	92,285	89,203
Office equipment	32,873	29,140
	591,999	580,684
Less: accumulated depreciation	(313,987)	(281,807)
Property and equipment, net	$278,012	$ 298,877

Included in depreciation expense was $32,180 and $30,142 related to property and equipment for the three months ended March 31, 2016 and 2015, respectively.

Property and equipment includes $243,970 of leasehold improvements, furniture and fixtures under capital leases as of March 31, 2016. Accumulated depreciation of assets under capital leases totaled $118,552 as of March 31, 2016.

NOTE 6. PRODUCTS LEASED AND HELD FOR LEASE

Products leased and held for lease consisted of the following at:

	March 31, 2016	December 31, 2015
Enhanced table systems	$298,956	$ 288,683
Less: accumulated depreciation	(165,681)	(154,198)
Products leased and held for lease, net	$133,275	$ 134,485

Included in depreciation expense was $11,483 and $10,243 related to products leased and held for lease for the three months ended March 31, 2016 and 2015, respectively.

NOTE 7. INTANGIBLE ASSETS

Intellectual property and intangible assets consisted of the following at:

	March 31, 2016	December 31, 2015
Patents	$13,615,967	$13,615,967
Customer relationships	3,400,000	3,400,000
Trademarks	2,740,000	2,740,000
Non-compete agreements	660,000	660,000
Licensing agreements	35,000	35,000
	20,450,967	20,450,967
Less: accumulated amortization	(7,561,643)	(7,189,331)
Intangible assets, net	$12,889,324	$13,261,636

Amortization expense was $372,312 and $378,073 for the three months ended March 31, 2016 and 2015, respectively.

In October 2011, we acquired the following intangible assets related to the asset purchase with Prime Table Games LLC and Prime Table Games UK (collectively "Prime Table Games"):

	Fair Value
Patents	$13,259,000
Customer relationships	3,400,000
Trademarks	2,740,000

Goodwill	1,091,000
Non-compete agreement	660,000
Total acquired intangible assets	$21,150,000

NOTE 8. ACCRUED EXPENSES

Accrued expenses, consisted of the following at:

	March 31, 2016	December 31, 2015
Royalties	$326,829	$ 259,193
TableMAX reimbursement	174,638	136,785
Professional fees	93,947	154,888
Trade show expenses	82,628	78,549
Vacation	73,833	62,546
Salaries & payroll taxes	72,902	95,115
Accrued interest	32,068	14,832
Commissions	23,173	22,056
Accrued expenses	$880,018	$ 823,964

NOTE 9. CAPITAL LEASE OBLIGATIONS

Capital lease obligations consisted of the following at:

	March 31, 2016	December 31, 2015
Capital lease obligation – leasehold improvements	$100,170	$ 107,365
Capital lease obligation – office furniture	19,593	29,839
	119,763	137,204
Less: Current portion	(49,366)	(59,196)
Capital lease obligations	$70,397	$ 78,008

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

The capital lease obligation – leasehold improvements requires 60 monthly payments of $2,879, including 5.5% interest, beginning May 2014 through May 2019.

The capital leases cover furniture and leasehold improvements located at our corporate headquarters in Las Vegas, Nevada. Annual requirements for capital leases obligations are as follows:

March 31,	Total
2017	$54,692
2018	34,545
2019	34,545
2020	5,757
Total minimum lease payments	$129,539
Less: amount representing interest	(9,776)
Present value of net minimum lease payments	$119,763

NOTE 10. NOTES PAYABLE

Notes payable consisted of the following at:

	March 31, 2016	December 31, 2015
Notes payable, net of debt discount - PTG	$10,261,236	$ 10,934,544
Note payable – related party, Carpathia Associates	562,071	579,083

Note payable – related party, Robert Saucier