

Galaxy Gaming Reports Q2 Financial Results

LAS VEGAS, Aug. 14, 2015 (GLOBE NEWSWIRE) -- Galaxy Gaming, Inc. (OTC:GLXZ), the world's largest independent developer, manufacturer and distributor of casino table games and enhanced systems, announced today its results for the three and six months ended June 30, 2015.

Financial Highlights

Q-2 2015 vs. Q-2 2014

- Revenue of \$2,683K increased 9% or \$220K from \$2,463K.
- Adjusted EBITDA of \$842K decreased 15% or \$151K from \$993K.
- Pre-tax income of \$125K decreased \$108K or 46% from \$233K.
- Net income of \$72K decreased \$37K or 34% from \$109K.

Six months 2015 vs. Six months 2014

- Revenue of \$5,267K increased 11% or \$540K from \$4,727K.
- Adjusted EBITDA of \$1,693K decreased 14% or \$274K from \$1,967K.
- Pre-tax income of \$241K decreased 50% or \$237K from \$478K.
- Net income of \$134K decreased 49% or \$127K from \$261K.

Q-2 2015 vs. Q-1 2015

- Revenue of \$2,683K increased 4% or \$99K from \$2,584K.
- Adjusted EBITDA of \$842K increased 2% or \$13K from \$829K.
- Pre-tax income of \$125K increased 8% or \$9K from \$116K.
- Net income of \$72K increased 14% or \$9K from \$63K.

Executive Comments

Gary A. Vecchiarelli, Galaxy's CFO commented, "We are pleased that our recurring revenue has increased in the second quarter. Growth continues to be the recurring theme, as we have now increased our recurring revenues 14 of the last 15 quarters. While we have incurred increased legal and regulatory costs recently, I anticipate resolution in both those areas will open up further revenue opportunities for the Company."

"The revenue increases reflect the improvements and strategies we implemented with our sales team who have benefited from the expansion and diversification of our product lines," stated Robert B. Saucier, Galaxy's CEO. "After a sluggish first quarter start, we expect that the changes made and represented in our second quarter results, will continue to produce stronger results going forward. I believe we will once again finish the year with record results, providing increased momentum as we enter 2016."

Mr. Saucier continued, "Those who monitor our balance sheet should recognize our commitment to long-term debt reduction. Cash generated from operations continues to reduce the principal balances of our debt approximately \$1 Million each quarter. In summary, the Company is now healthier than ever as a result of increased operational performance combined with an improving balance sheet."

Financial Summary

Revenue. Total revenue for the second quarter increased 9% to \$2,682,600, over the same quarter 2014. This increase is primarily due to additional placement of premium games and expansion into new territories. For the six months ended June 30, 2015 compared to the same period 2014, revenues increased 11% to 5,266,695. The increase for the six month period was primarily due to the increased focus on premium games and expansion into new territories. Between the second quarter 2015 and first quarter 2015, total revenues increased 4% to \$2,682,600. These increases were due to an increase in activity in the United Kingdom and additional placements of premium and side bet games. The annualized recurring revenue run-rate as of June 30, 2015 is \$10,709,536.

Total costs and expenses. Expenses for the second quarter 2015 increased 17% to \$2,292,336, over the same quarter 2014. The increase in 2015 is primarily due to increases in selling, general & administrative expenses, driven

by increased legal and compliance costs. Our professional and compliance expenses increased significantly due to ongoing litigation with competitors. In that amount, we also recognized increases due to the licensure process with California and Nevada. For the six month period ended June 30, 2015 compared to the same period 2014, total costs and expenses increased 21% to 4,485,925. This increase was also due to the increased legal and regulatory costs, combined with the fact 2015 represents a full six months at our new and larger headquarters location. Total costs and expenses increased in the second quarter 2015 compared to the first quarter 2015 by 5% to \$2,292,336. These increases were primarily due to the additional professional and compliance expenses related to litigation and licensure.

Net income. Net income for the second quarter 2015 was \$71,573, which was a decrease of 35% from the same quarter 2014. The decrease was primarily due to the increases in selling, general & administrative expenses. For the six month period ended June 30, 2015 compared to the same period 2014, the net income decreased 48% to \$134,432. The primary driver of this decrease was the increases in selling, general & administrative expenses. The net income in the second quarter 2015, increased 14% to \$71,573 over the first quarter of 2015. This increase was the result of additional revenues between the quarters.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure (described below), for the second quarter 2015 decreased 15% to \$841,667, compared to the same quarter 2014. Higher selling, general & administrative expenses contributed to the decrease in Adjusted EBITDA between the periods. For the six month period ended June 30, 2015, Adjusted EBITDA decreased 14% to \$1,692,819 compared to the same period ended 2014. This decrease was primarily due to lower net income as a result of the increased selling, general & administrative expenses. Adjusted EBITDA in the second quarter 2015 increased 2% to \$841,667 compared to the first quarter in 2015. This increase was due to growth in recurring revenues between the quarters.

Use of Non-GAAP Measures

Galaxy Gaming, Inc. (the "Company") prepares its consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding Adjusted EBITDA, which differs from the term EBITDA as it is commonly used. In addition to adjusting net income (loss) from continuing operations to exclude taxes, interest, and depreciation and amortization, Adjusted EBITDA also excludes noncash charges, certain non-recurring charges and share-based compensation expense. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, Adjusted EBITDA is used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of this metric offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results.

Adjusted EBITDA should not be considered as an alternative to net loss or to net cash used in operating activities as a measure of operating results or of liquidity. It may not be comparable to similarly titled measures used by other companies, and it excludes financial information that some may consider important in evaluating the Company's performance. A reconciliation of GAAP net loss from continuing operations to Adjusted EBITDA is included in the accompanying financial schedules.

About Galaxy Gaming

Headquartered in Las Vegas, Nevada, Galaxy Gaming (galaxygaming.com) develops, manufactures and distributes innovative proprietary table games, state-of-the-art electronic wagering platforms and enhanced bonusing systems to land-based, riverboat, cruise ships and online casinos worldwide. Through its iGaming partner Games Marketing Ltd., Galaxy Gaming licenses its proprietary table games to the online gaming industry. The Company is also expanding its global presence through its partnership with WPT Enterprises, Inc., owner of the World Poker Tour. Galaxy's games can be played online at FeelTheRush.com. Connect with Galaxy on [Facebook](#), [YouTube](#) and [Twitter](#).

This press release may contain "forward looking" statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and is subject to the safe harbors created thereby. Forward looking statements are subject to change and involve risks and uncertainties that could significantly affect future results, including those risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although the Company believes any expectations expressed in any forward looking statements are reasonable, future results may differ materially from those expressed in any forward looking statements. The Company undertakes no obligation to update the information in this press release except as required by law and represents that the information speaks only as of today's date.

Revenue:				
Product leases and royalties	\$2,677,384	\$2,461,354	\$5,255,696	\$4,722,163
Product sales and service	5,216	1,175	10,999	5,177
Total revenue	<u>2,682,600</u>	<u>2,462,529</u>	<u>5,266,695</u>	<u>4,727,340</u>
Costs and expenses:				
Cost of ancillary products and assembled components	23,989	17,620	47,278	36,940
Selling, general and administrative	1,700,503	1,353,796	3,279,579	2,512,454
Research and development	116,441	98,051	269,429	211,387
Depreciation	43,018	28,451	84,311	42,744
Amortization	372,313	389,634	750,386	779,133
Share-based compensation	36,072	67,136	54,942	114,823
Total costs and expenses	<u>2,292,336</u>	<u>1,954,688</u>	<u>4,485,925</u>	<u>3,697,481</u>
Income from operations	<u>390,264</u>	<u>507,841</u>	<u>780,770</u>	<u>1,029,859</u>
Other income (expense):				
Interest income	5,320	5,827	11,205	11,454
Interest expense	(270,865)	(280,445)	(550,803)	(563,682)
Total other expense	<u>(265,545)</u>	<u>(274,618)</u>	<u>(539,598)</u>	<u>(552,228)</u>
Income before provision for income taxes	124,719	233,223	241,172	477,631
Provision for income taxes	<u>(53,146)</u>	<u>(123,846)</u>	<u>(106,740)</u>	<u>(217,089)</u>
Net income	<u>\$71,573</u>	<u>\$109,377</u>	<u>\$134,432</u>	<u>\$260,542</u>
Basic income per share	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.01</u>
Diluted income per share	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.01</u>
Weighted average shares outstanding:				
Basic	<u>39,065,591</u>	<u>38,535,591</u>	<u>39,028,091</u>	<u>38,459,897</u>
Diluted	<u>39,065,591</u>	<u>38,626,603</u>	<u>39,028,508</u>	<u>38,537,558</u>

GALAXY GAMING, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	FOR THE SIX MONTHS ENDED	
	JUNE 30,	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income for the period	\$134,432	\$260,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	84,311	42,744
Amortization expense	750,386	779,132
Provision for bad debt expense	40,000	—
Inventory reserve	47,069	—
Amortization of debt discount	104,316	104,316
Deferred income tax provision	202,506	—
Share-based compensation	54,942	114,823
Changes in operating assets and liabilities:		
Increase in restricted cash	(28,408)	(20,500)
Increase in accounts receivable	(51,744)	(150,414)
(Increase) decrease in other current assets	(8,156)	17,743
Increase in inventory	(20,348)	(52,079)
Increase in prepaid expenses	(117,860)	(59,804)
Increase in other long-term assets	—	(40,889)

Increase in accounts payable	286,986	94,346
Increase in accrued expenses	14,837	49,695
Increase in income taxes payable	—	122,266
Increase in deferred revenue	35,086	70,287
Increase in jackpot liabilities	28,464	23,021
Increase in deferred rent	1,685	52,724
Net cash provided by operating activities	<u>1,558,504</u>	<u>1,407,953</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(44,066)	(8,791)
Acquisition of intangible assets	—	(35,000)
Net cash used in investing activities	<u>(44,066)</u>	<u>(43,791)</u>
Cash flows from financing activities:		
Principal payments on capital leases	(32,464)	(9,352)
Principal payments on notes payable	(1,800,231)	(1,360,143)
Net cash used in financing activities	<u>(1,832,695)</u>	<u>(1,369,495)</u>
Effect of exchange rate changes on cash	<u>5,233</u>	<u>1,438</u>
Net decrease in cash and cash equivalents	(313,024)	(3,895)
Cash and cash equivalents – beginning of period	560,184	438,502
Cash and cash equivalents – end of period	<u>\$247,160</u>	<u>\$434,607</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$446,487</u>	<u>\$563,682</u>
Inventory transferred to leased assets	<u>\$11,034</u>	<u>\$36,550</u>
Cash paid for income taxes	—	—
Supplemental non-cash financing activities information:		
Effect of exchange rate on note payable in foreign currency	<u>\$152,523</u>	<u>\$74,935</u>
Assets acquired by capital leases	—	<u>\$243,970</u>

GALAXY GAMING, INC.
RECONCILIATION TO ADJUSTED EBITDA
(Unaudited)

	Three Months		Six Months		Three Months
	Ended June 30,		Ended June 30,		Ended March
	2015	2014	2015	2014	31,
	2015				
Net income	\$71,573	\$109,377	\$134,432	\$260,542	\$62,859
Interest income	(5,320)	(5,827)	(11,205)	(11,454)	(5,885)
Interest expense	270,865	280,445	550,803	563,682	279,939
Income tax provision	53,146	123,846	106,740	217,089	53,595
Depreciation	43,018	28,451	84,311	42,744	41,293
Amortization	372,313	389,634	750,386	779,133	378,073
Share based compensation	36,072	67,136	54,942	114,823	18,870
Adjusted EBITDA ⁽¹⁾	<u>\$841,667</u>	<u>\$993,062</u>	<u>\$1,692,819</u>	<u>\$1,966,559</u>	<u>\$828,744</u>

(1) Adjusted EBITDA is defined as net income (loss) from continuing operations before interest, taxes, depreciation, amortization, share-based compensation, and non-cash charges. Adjusted EBITDA does not purport to represent net earnings or net cash used in operating activities, as those terms are defined under generally accepted accounting principles, and should not be considered as an alternative to such measurements or as indicators of the Company's performance. The Company's definition of Adjusted EBITDA may not be comparable with similarly titled measures used by other companies.

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Source: Galaxy Gaming, Inc.