

Galaxy Gaming Reports Q-3 Financial Results

LAS VEGAS, Nov. 14, 2016 (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 nine months ended September 30, 2016.

Financial Highlights

Q-3 2016 vs. Q-3 2015

- Revenue of \$3,192K increased 16%
- Adjusted EBITDA of \$1,499K increased 68%
- Pre-tax income of \$1,424K increased 569%
- Net income of \$821K increased 586%

Q-3 2016 vs. Q-2 2016

- Revenue of \$3,192K increased 4%
- Adjusted EBITDA of \$1,499K increased 14%
- Pre-tax income of \$1,424K increased 134%
- Net income of \$821K increased 117%

9 Months 2016 vs. 9 Months 2015

- Revenue of \$9,240K increased 15%
- Adjusted EBITDA of \$4,041K increased 58%
- Pre-tax income of \$2,569K increased 466%
- Net income of \$1,578K increased 521%

Executive Comments

Gary A. Vecchiarelli, Galaxy's CFO commented, "We are very pleased with our continued progress in the third quarter. Our top and bottom lines continue to grow as this quarter represents another record breaking period for our Company." Mr. Vecchiarelli added, "We also finished the quarter with almost \$2 million in cash. The refinancing transaction has changed the financial profile of our Company and provided us with the working capital and flexibility we need to expand rapidly."

The Company's CEO Robert B. Saucier added, "When reporting our results, it's always a pleasure to simply say, 'the numbers speak for themselves.' But beyond our Company's fiscal performance, what excites me most are the investments we are making to stimulate a compelling future. The majority of our increased cash flow is being re-invested to develop new innovative products and to escalate our sales and marketing activities. These

considerable investments should beneficially increase revenues, profits and cash flow commencing in 2017 and continuing into at least 2018.”

Financial Summary

Revenue. Total revenue for the third quarter 2016 increased 16% to \$3,191,969, over the same quarter 2015. This increase is primarily due to additional placement of premium games and expansion into new territories. Between the third quarter 2016 and second quarter 2016, total revenues increased 4% to \$3,191,969. This increase was recognized in all categories of products, with premium games netting the largest gains. The annualized recurring revenue run-rate as of September 30, 2016 is \$12,767,876.

Total costs and expenses. Expenses for the third quarter 2016 decreased 6% to \$2,153,371, when compared to the same quarter 2015. The decrease is primarily due to decreased legal and professional fees. The total costs and expenses in the third quarter 2016 decreased 2% to \$2,153,371 compared to the second quarter 2016, primarily driven by decreased legal and professional fees.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure (described below), for the third quarter 2016 increased 68% to \$1,499,213, compared to the same quarter 2015. Increased gross revenues and lower selling, general & administrative expenses contributed to the increase in Adjusted EBITDA between the periods. Adjusted EBITDA in the third quarter 2016 increased 14% to \$1,499,213 compared to the second quarter in 2016. This increase was also driven by the combination of an increase in gross revenues and a decrease in selling, general & administrative expenses. The decrease in selling, general & administrative expenses was primarily driven by lower legal costs attributed to litigation.

Net income. Net income for the third quarter 2016 was \$820,972, which was an increase of 586% from the same quarter 2015. The increase was primarily due to the increases in our recurring revenues and lower costs and expenses. The net income of \$820,972 in the third quarter increased 117% compared to the second quarter 2016. This increase was the combined result of increased revenues and decreases in selling, general & administrative expenses, for reasons previously mentioned.

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.

GALAXY GAMING, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

ASSETS	September 30, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 1,823,657	\$ 570,623
Restricted cash	87,850	97,859
Accounts receivables, net allowance for bad debts of \$27,190 and \$30,944	1,937,343	1,828,669
Inventory	484,442	411,700
Deferred tax asset	—	43,017
Prepaid expense and other	99,905	108,827
Total current assets	4,433,197	3,060,695
Property and equipment, net	244,896	298,877
Products leased and held for lease, net	204,467	134,485
Goodwill and other intangible assets, net	13,235,698	14,352,636
Deferred tax assets, net	—	82,562
Other assets, net	299,918	41,793
Total assets	<u>\$ 18,418,176</u>	<u>\$ 17,971,048</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 563,445	\$ 1,421,848
Accrued expenses	976,834	823,964
Income taxes payable	1,106,600	170,331
Deferred revenue	870,628	717,690
Jackpot liabilities	91,602	106,671
Deferred tax liability	75,358	—
Deferred rent, current portion	12,753	6,197
Current portion of long-term debt and capital lease obligations	909,009	4,707,316
Total current liabilities	4,606,229	7,954,017
Deferred rent, net	42,532	52,643
Capital lease obligations, net of current portion	54,898	78,008
Warrant liability	806,698	—
Long-term debt, net	9,028,235	7,436,171
Total liabilities	14,538,592	15,520,839
Commitments and Contingencies		
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, \$.001 par value; 0 shares issued and outstanding, respectively	—	—
Common stock, 65,000,000 shares authorized; \$.001 par value; 39,315,591 and 39,215,591 shares issued and outstanding, respectively	39,316	39,216
Additional paid-in capital	3,054,847	2,963,841
Accumulated earnings (deficit)	785,421	(792,446)
Accumulated other comprehensive income	—	239,598
Total stockholders' equity	3,879,584	2,450,209
Total liabilities and stockholders' equity	<u>\$ 18,418,176</u>	<u>\$ 17,971,048</u>

GALAXY GAMING, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	FOR THE THREE MONTHS ENDED September 30,		FOR THE NINE MONTHS ENDED September 30,	
	2016	2015	2016	2015
Revenue:				
Product leases and royalties	\$ 3,190,823	\$ 2,747,774	\$ 9,229,815	\$ 8,003,469
Product sales and service	1,146	7,074	10,425	18,073
Total revenue	<u>3,191,969</u>	<u>2,754,848</u>	<u>9,240,240</u>	<u>8,021,542</u>
Costs and expenses:				
Cost of ancillary products and assembled components	26,763	22,890	78,075	70,168
Selling, general and administrative	1,576,480	1,736,024	4,850,785	4,995,984
Research and development	89,513	101,822	270,734	371,251
Depreciation and amortization	419,540	416,918	1,252,860	1,251,614
Share-based compensation	41,075	17,909	91,006	72,850
Total costs and expenses	<u>2,153,371</u>	<u>2,295,563</u>	<u>6,543,460</u>	<u>6,761,867</u>
Income from operations	<u>1,038,598</u>	<u>459,285</u>	<u>2,696,780</u>	<u>1,259,675</u>
Other income (expense):				
Settlement income	697,214	—	697,214	—
Interest expense	(227,632)	(248,604)	(741,045)	(799,407)
Loss on extinguishment of debt	(87,578)	—	(87,578)	—
Change in estimated fair value of warrant liability	2,933	—	2,933	—
Interest income	56	2,084	202	13,288
Total other income (expense)	<u>384,993</u>	<u>(246,520)</u>	<u>(128,274)</u>	<u>(786,119)</u>
Income before provision for income taxes	<u>1,423,591</u>	<u>212,765</u>	<u>2,568,506</u>	<u>473,556</u>
Provision for income taxes	<u>(602,619)</u>	<u>(93,059)</u>	<u>(990,639)</u>	<u>(219,418)</u>
Net income	<u>\$ 820,972</u>	<u>\$ 119,706</u>	<u>\$ 1,577,867</u>	<u>\$ 254,138</u>
Net income per share, basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ 0.04</u>	<u>\$ 0.01</u>
Weighted-average shares outstanding:				
Basic	<u>39,315,591</u>	<u>39,040,775</u>	<u>39,372,944</u>	<u>39,040,775</u>
Diluted	<u>39,465,676</u>	<u>39,079,102</u>	<u>39,559,494</u>	<u>39,079,102</u>

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

	FOR THE NINE MONTHS ENDED September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 1,577,867	\$ 254,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,252,860	1,251,614
Amortization of debt issuance costs and debt discount	136,710	156,474
Provision for bad debt expense	—	40,000
Inventory reserve	—	47,069
Loss on extinguishment of debt	87,578	—
Change in estimated fair value of warrant liability	(2,933)	—
Deferred income tax provision	54,370	219,418
Share-based compensation	91,006	72,850
Changes in operating assets and liabilities:		
Decrease in restricted cash	10,009	9,392
Increase in accounts receivable	(107,969)	(197,139)
Decrease in other current assets	43,017	62,314
Increase in inventory	(181,319)	(125,820)
Decrease (increase) in prepaid expenses and other current assets	6,608	(65,538)
(Decrease) increase in accounts payable	(858,954)	495,891
Increase in income taxes payable	936,269	—
Increase in accrued expenses	141,841	23,037
Increase in deferred revenue	152,938	65,227
Decrease in jackpot liabilities	(15,069)	(6,296)
Decrease in deferred rent	(3,555)	(957)
Net cash provided by operating activities	<u>3,321,274</u>	<u>2,301,674</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(43,345)	(44,980)
Cash flows from financing activities:		
Proceeds received from long-term debt	932,126	—
Principal payments on capital lease obligations	(51,698)	(49,186)
Principal payments on long-term debt	(2,873,437)	(2,662,699)
Net cash used in financing activities	<u>(1,993,009)</u>	<u>(2,711,885)</u>
Effect of exchange rate changes on cash	<u>(31,886)</u>	<u>(1,962)</u>
Net increase (decrease) in cash and cash equivalents	1,253,034	(457,153)
Cash and cash equivalents – beginning of period	570,623	560,184
Cash and cash equivalents – end of period	<u>\$ 1,823,657</u>	<u>\$ 103,031</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 753,250</u>	<u>\$ 800,830</u>
Inventory transferred to leased assets	<u>\$ 108,577</u>	<u>\$ 39,896</u>
Cash paid for income taxes	<u>\$ 35,000</u>	<u>\$ —</u>
Supplemental non-cash financing activities information:		
Effect of exchange rate on long-term debt payable in foreign currency	<u>\$ 336,485</u>	<u>\$ 119,414</u>
Issuance of warrants in conjunction with term loan	<u>\$ 809,631</u>	<u>\$ —</u>
Points paid on term loan	<u>\$ 262,500</u>	<u>\$ —</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended June 30,
	2016	2015	2016	2015	2016
Net income	\$ 820,972	\$ 119,706	\$ 1,577,867	\$ 254,138	\$ 377,527
Interest income	(56)	(2,084)	(202)	(13,288)	(90)
Interest expense	227,632	248,604	741,045	799,407	255,218
Income tax provision	602,619	93,059	990,639	219,418	231,057
Depreciation and amortization	419,540	416,918	1,252,860	1,251,614	417,344
Share based compensation	41,075	17,909	91,006	72,850	29,459
Loss on extinguishment of debt	87,578	—	87,578	—	—
Change in estimated fair value of warrant liability	(2,933)	—	(2,933)	—	—
Gain on settlement	(697,214)	—	(697,214)	—	—
Adjusted EBITDA ⁽¹⁾	\$ 1,499,213	\$ 894,112	\$ 4,040,646	\$ 2,584,139	\$ 1,310,515

(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.