

Galaxy Gaming Reports Q3 Financial Results

LAS VEGAS, Nov. 16, 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 nine months ended September 30, 2015.

Financial Highlights

Q-3 2015 vs. Q-3 2014

- Revenue of \$2,755K increased 9% or \$238K from \$2,517K.
- Adjusted EBITDA of \$894K decreased 3% or \$27K from \$921K.
- Pre-tax income of \$213K increased 4% or \$9K from \$204K.
- Net income of \$120K increased 38% or \$33K from \$87K.

Nine months 2015 vs. Nine months 2014

- Revenue of \$8,022K increased 11% or \$777K from \$7,245K.
- Adjusted EBITDA of \$2,584K decreased 11% or \$310K from \$2,894K.
- Pre-tax income of \$474K decreased 31% or \$208K from \$682K.
- Net income of \$254K decreased 27% or \$94K from \$348K.

Q-3 2015 vs. Q-2 2015

- Revenue of \$2,755K increased 3% or \$72K from \$2,683K.
- Adjusted EBITDA of \$894K increased 5% or \$45K from \$849K.
- Pre-tax income of \$213K increased 62% or \$81K from \$132K.
- Net income of \$120K increased 67% or \$48K from \$72K.

Executive Comments

Gary A. Vecchiarelli, Galaxy's CFO commented, "I am happy to announce the third quarter represents yet another period of incremental growth for Galaxy Gaming. In the past 4 years, or 16 quarters, we have been able to achieve growth to our recurring revenues 15 times. Our business model has tremendous operating leverage, which is highlighted by the fact that approximately 70 cents of every new dollar in revenue between Q2 and Q3 of this year went to the bottom line." Mr. Vecchiarelli added, "Our operating expenses are up significantly over the prior year primarily due to increased legal and regulatory costs. However, we see these expenses decreasing as events wind down in the coming quarters."

Robert B. Saucier, Galaxy's CEO added, "The continued roll-out of our expanding product line is resulting in increases in market share and revenues. As our newer products gain a foundation of market acceptance in casinos, we believe they will serve to further propel our momentum and support our objective of increasing future recurring revenues."

Financial Summary

Revenue. Total revenue for the third quarter increased 9% to \$2,754,848, over the same quarter 2014. This increase is primarily due to additional placement of premium games and expansion into new territories. For the nine months ended September 30, 2015 compared to the same period 2014, revenues increased 11% to \$8,021,541. The increase for the nine month period was primarily due to the increased focus on premium games and expansion into new territories. Between the third quarter 2015 and second quarter 2015, total revenues increased 3% to \$2,754,848. 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 September 30, 2015 is \$10,991,096.

Total costs and expenses. Expenses for the third quarter 2015 increased 12% to \$2,295,563, 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 expenses increased significantly due to ongoing litigation with competitors. We also recognized increases in regulatory and compliance fees due to the licensure process with California and Nevada. For the nine month period ended September 30, 2015 compared to the same period 2014, total costs and expenses increased 18% to \$6,761,866. This increase was also due to the increased legal and regulatory costs, combined with the fact 2015 represents a full nine months at our new and larger headquarters location. Total costs and expenses remained relatively flat in the third quarter 2015 compared to the second quarter 2015.

Net income. Net income for the third quarter 2015 was \$119,706, which was an increase of 38% from the same quarter 2014. The increase was primarily due to the increases in our recurring revenues. For the nine month period ended September 30, 2015 compared to the same period 2014, the net income decreased 27% to \$254,138. The primary driver of this decrease was the increases in selling, general & administrative expenses. The net income in the third quarter 2015, increased 67% to \$119,707 compared to the second quarter of 2015. This increase was the result of revenue growth between the recent quarters.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure (described below), for the third quarter 2015 decreased 3% to \$894,112, compared to the same quarter 2014. Higher selling, general & administrative expenses contributed to the decrease in Adjusted EBITDA between the periods. For the nine month period ended September 30, 2015, Adjusted EBITDA decreased 11% to \$2,584,141 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 third quarter 2015 increased 5% to \$894,112 compared to the second quarter in 2015. This increase was primarily driven by the growth in recurring revenues between the recent 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](https://www.facebook.com/galaxygaming), [YouTube](https://www.youtube.com/galaxygaming) and [Twitter](https://twitter.com/galaxygaming).

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. BALANCE SHEETS (Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		

Current assets:

Cash and cash equivalents	\$ 103,031	\$ 560,184
Restricted cash	98,521	107,913
Accounts receivables, net allowance for bad debts of \$40,000 and \$34,887	1,628,543	1,472,743
Prepaid expenses	145,978	80,440
Inventories, net	271,645	232,789
Note receivable – related party, current portion	—	383,298
Deferred tax asset	47,691	47,691
Other current assets	270	62,584
Total current assets	2,295,679	2,947,642
Property and equipment, net	332,882	382,098
Products leased and held for lease, net	134,215	125,665
Intangible assets, net	13,633,949	14,756,648
Goodwill	1,091,000	1,091,000
Deferred tax assets, net of current portion	96,564	143,614
Other assets, net	42,699	45,416
Total assets	\$ 17,626,988	\$ 19,492,083

LIABILITIES AND STOCKHOLDERS' EQUITY**Current liabilities:**

Accounts payable	\$ 1,014,800	\$ 518,428
Accrued expenses	541,659	519,166
Income taxes payable	222,671	22,872
Deferred revenue	712,852	647,625
Jackpot liabilities	105,064	111,360
Current portion of capital lease obligations	68,785	66,273
Current portion of long-term debt	4,003,899	3,480,864
Total current liabilities	6,669,730	5,366,588
Deferred rent	55,285	56,242
Capital lease obligations, net of current portion	85,506	137,204
Long-term debt, net of debt discount, net of current portion	8,524,495	12,056,467
Total liabilities	15,335,016	17,616,501

Commitments and Contingencies**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 39,065,591 and 38,990,591 shares issued and outstanding	39,066	38,991
Additional paid-in capital	2,917,264	2,844,488
Accumulated deficit	(726,162)	(980,300)
Accumulated other comprehensive income (loss)	61,804	(27,597)
Total stockholders' equity	2,291,972	1,875,582
Total liabilities and stockholders' equity	\$ 17,626,988	\$ 19,492,083

GALAXY GAMING, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenue:				
Product leases and royalties	\$ 2,747,774	\$ 2,516,376	\$ 8,003,469	\$ 7,238,539
Product sales and service	7,074	1,008	18,073	6,185
Total revenue	<u>2,754,848</u>	<u>2,517,384</u>	<u>8,021,542</u>	<u>7,244,724</u>
Costs and expenses:				
Cost of ancillary products and assembled components	22,890	19,362	70,168	56,302
Selling, general and administrative	1,736,024	1,450,403	4,995,984	3,956,855
Research and development	101,822	126,300	371,251	337,687
Depreciation	44,605	29,704	128,916	72,450
Amortization	372,313	391,249	1,122,698	1,170,381
Share-based compensation	17,909	30,554	72,850	151,378
Total costs and expenses	<u>2,295,563</u>	<u>2,047,572</u>	<u>6,761,867</u>	<u>5,745,053</u>
Income from operations	<u>459,285</u>	<u>469,812</u>	<u>1,259,675</u>	<u>1,499,671</u>
Other income (expense):				
Interest income	2,084	5,387	13,288	16,841
Interest expense	(248,604)	(271,275)	(799,407)	(834,957)
Total other expense	<u>(246,520)</u>	<u>(265,888)</u>	<u>(786,119)</u>	<u>(818,116)</u>
Income before provision for income taxes	<u>212,765</u>	<u>203,924</u>	<u>473,556</u>	<u>681,555</u>
Provision for income taxes	<u>(93,059)</u>	<u>(116,495)</u>	<u>(219,418)</u>	<u>(333,584)</u>
Net income	<u>\$ 119,706</u>	<u>\$ 87,429</u>	<u>\$ 254,138</u>	<u>\$ 347,971</u>
Basic income per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted income per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average shares outstanding:				
Basic	<u>39,040,775</u>	<u>38,560,591</u>	<u>39,040,775</u>	<u>38,493,955</u>
Diluted	<u>39,079,102</u>	<u>38,574,447</u>	<u>39,079,102</u>	<u>38,772,448</u>

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

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
Cash flows from operating activities:		
Net income for the period	\$ 254,138	\$ 347,971

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation expense	128,916	72,450
Amortization expense	1,122,698	1,170,381
Provision for bad debt expense	40,000	—
Inventory reserve	47,069	—
Amortization of debt discount	156,474	156,474
Deferred income tax provision	219,418	333,584
Share-based compensation	72,850	151,378

Changes in operating assets and liabilities:

Increase in restricted cash	9,392	149,712
Increase in accounts receivable	(197,139)	(159,478)
Decrease in other current assets	62,314	15,691
Increase in inventory	(125,820)	(80,678)
Increase in prepaid expenses	(65,538)	(19,374)
Increase in other long-term assets	—	(41,794)
Increase in accounts payable	495,891	129,885
Increase in accrued expenses	23,037	22,582
Increase in deferred revenue	65,227	97,324
Decrease in jackpot liabilities	(6,296)	(147,043)
(Decrease) increase in deferred rent	(957)	54,477

Net cash provided by operating activities

2,301,674	2,253,542
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Cash flows from investing activities:

Acquisition of property and equipment	(44,980)	(31,343)
Acquisition of intangible assets	—	(35,000)

Net cash used in investing activities

(44,980)	(66,343)
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Cash flows from financing activities:

Principal payments on capital leases	(49,186)	(24,753)
Principal payments on notes payable	(2,662,699)	(2,199,935)

Net cash used in financing activities

(2,711,885)	(2,224,688)
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Effect of exchange rate changes on cash

(1,962)	(6,461)
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Net decrease in cash and cash equivalents

(475,153)	(43,950)
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Cash and cash equivalents – beginning of period

560,184	438,502
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Cash and cash equivalents – end of period

\$ 103,031	\$ 394,552
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Supplemental cash flow information:

Cash paid for interest	\$ 800,830	\$ 678,483
Inventory transferred to leased assets	\$ 39,896	\$ 71,203
Cash paid for income taxes	\$ —	\$ —

Supplemental non-cash financing activities information:

Effect of exchange rate on note payable in foreign currency	\$ 119,414	\$ 190,180
Assets acquired by capital leases	\$ —	\$ 243,970

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended June 30,
	2015	2014	2015	2014	2015
Net income	\$ 119,706	\$ 87,429	\$ 254,138	\$ 347,971	\$ 71,573
Interest income	(2,084)	(5,387)	(13,289)	(16,841)	(5,320)
Interest expense	248,604	271,275	799,408	834,957	270,865
Income tax provision	93,059	116,495	219,418	333,584	60,018
Depreciation	44,605	29,704	128,916	72,448	43,018
Amortization	372,313	391,249	1,122,699	1,170,382	372,313
Share based compensation	17,909	30,554	72,851	151,378	36,072
Adjusted EBITDA ⁽¹⁾	<u>\$ 894,112</u>	<u>\$ 921,319</u>	<u>\$ 2,584,141</u>	<u>\$ 2,893,879</u>	<u>\$ 848,539</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.