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News Release

**For Immediate Release - January 14, 2009**

## **ESI ENTERTAINMENT ANNOUNCES FISCAL 2009 THIRD QUARTER FINANCIAL RESULTS**

**BURNABY, B.C. January 14, 2009-** ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) reported today its financial results for fiscal Q3 2009 ended November 30, 2008. (All dollar amounts reported in Canadian funds)

### **Financial Highlights for the Three and Nine Months ended November 30, 2008**

The highlights for ESI, on a consolidated basis, are:

- Revenue for the three months to November 30, 2008, increased from \$761,688 to \$1,196,471 +57% - over the comparative period in the prior year;
- Revenue for the nine months to November 30, 2008 increased from \$2,219,453 to \$2,808,153 +27% - over the comparative period in the prior year;
- Gross Profit for the three months to November 30, 2008, increased from \$64,176 to \$619,634 +865% - over the comparative period in the prior year;
- Gross Profit for the nine months to November 30, 2008, increased from \$373,051 to \$721,754 +93% - over the comparative period in the prior year;
- Net loss for the three months to November 30, 2008, decreased from \$2,250,752 to \$1,106,477 (51%) - in the comparative period in the prior year;
- Net loss for the nine months to November 30, 2008, decreased from \$7,423,989 to \$3,965,574 (47%) - over the comparative period in the prior year;

In September 2008 Citadel was audited by FTI Consulting to provide assurance to the USA Department of Justice (DOJ) that it is adhering to the terms of the agreement signed in June 2008. The audit and report to the DOJ were completed successfully and the second and final report and audit will occur in December 2009. Citadel remains one of only two payment processors to have reached a settlement thus removing any future overhang from its past business of providing services to USA consumers.

The terms of the USD \$2 million loan obtained in June 2008 requires the first repayment of USD \$1 million to be made during December 2008. The company has used the additional time provided by the loan to progress the growth of its Citadel and Integrity subsidiaries while continuing to pursue divestiture and investment transactions. A planned divestiture of the ESI Integrity division, which would have enabled us to repay the entire loan, did not conclude during the Third Quarter as a consequence of the worldwide economic downturn; as a result the Company was unable to meet its first installment repayment obligation on December 11, 2008. While the loan has not yet been repaid, the Lender has been kept apprised of the situation and has indicated that it wishes us to continue to work towards Closing of a divestiture which will enable the loan to be repaid.

During the past several months both Integrity and Citadel have been subject to due diligence studies by potential acquirers and investors and this work is continuing. Management is optimistic that one or more potential transactions will conclude during the fourth quarter of FY09 allowing us to repay the loan.

The Company will also soon downgrade its large eMoney Authorisation with the UK Financial Services Authority to a small eMoney Exemption. The myCitadel eMoney wallet is not a key part of the Company's strategy for future growth and the large eMoney FSA Authorisation is therefore no longer needed. This releases the deposit held to underwrite consumer deposits in myCitadel. The Company will maintain its UK Money Services Business Registration.

We are also continuing to review the expenses and grow the revenues in the subsidiaries. ESI Integrity has slightly decreased its resource levels, increased its revenues and built a strong funnel of business for 2009.

Citadel Commerce has re-structured to significantly reduce its costs while retaining a core team of individuals with the ability to function well in multiple roles and retain the experience and expertise to re-grow the Company.

The statements show that Citadel has not only reduced costs but is now achieving notable growth in its revenues driven mainly by the accelerating adoption of its Instant Internet Banking service. Many major merchants have signed agreements to use this service and have been integrating to the Citadel servers. Much of this work is now complete and is reflected in the growth of Citadel's revenues as the merchants begin to switch transactions to our service. Management believes that it is reasonable to expect this growth to continue.

The general conservatism in the markets is holding our share price to an all time low. We are not unique in this situation and the TSX has responded by extending to April 2009 the time for us to meet continued listing qualifications. Given the progress to-date, the company is working positively to achieve this objective.

The possibility of a successful renewal now exists. The Board and employees remain committed to bringing the Company through the final stages of the turnaround and will do everything possible to create a successful outcome.

"Anthony Greening"  
Chairman & CEO

"Michael Meeks"  
President

## Results of Operations

### Consolidated Revenues

The following table provides a breakdown of the Company's revenues from its subsidiaries for the reported periods:

| (\$ 000)      | <u>Three months ended November 30</u> |      |          | <u>Nine months ended November 30</u> |       |          |
|---------------|---------------------------------------|------|----------|--------------------------------------|-------|----------|
|               | 2008                                  | 2007 | % Change | 2008                                 | 2007  | % Change |
| Integrity     | 1,022                                 | 685  | 49%      | 2,388                                | 1,744 | 37%      |
| Citadel       | 174                                   | 77   | 126%     | 420                                  | 476   | (12%)    |
| Total Revenue | 1,196                                 | 762  | 57%      | 2,808                                | 2,220 | 26%      |

Approximately 85% of ESI's revenues were generated by ESI Integrity during the three months ended November 30, 2008 compared to 90% for the same period in the prior year.

### Consolidated Gross Profit

The following table provides a summary of the Company's gross profit for the reported periods:

| (\$ 000)                | <u>Three months ended Nov 30</u> |      | <u>Nine months ended Nov 30</u> |       |
|-------------------------|----------------------------------|------|---------------------------------|-------|
|                         | 2008                             | 2007 | 2008                            | 2007  |
| Revenues                | 1,196                            | 762  | 2,808                           | 2,220 |
| Direct Costs            | 577                              | 698  | 2,086                           | 1,846 |
| Gross profit            | 619                              | 64   | 722                             | 374   |
| Gross profit margin (%) | 52%                              | 8%   | 26%                             | 17%   |

### Product Development

Product development expenses were \$59,986 and \$267,764 during the three and nine months ended November 30, 2008 respectively, a decrease of 76% and 76% respectively compared to \$253,197 and \$1,108,153 for the three and nine months ended November 30, 2007. The decrease is mainly related to the reduced software development work on ESI Integrity products and the reduced development needed on Citadel to focus on the European and general e-commerce markets as our Rapid Bank Transfer and Instant Bank Transfer products have matured and require little on-going development.

### Sales, Marketing and Customer Service

Sales, marketing and customer service expenses were \$181,946 and \$658,789 during the three and nine months ended November 30, 2008 respectively, a decrease of 64% and 50% respectively compared to \$503,545 and \$1,312,001 for the three and nine months ended November 30, 2007. The decrease is primarily related to the reduction of staff in sales and marketing and customer service due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers.

### General and Administrative

General and administrative expenses were \$985,757 and \$2,957,975 during the three and nine months ended November 30, 2008 respectively, representing a decrease of 37% and 27% compared to \$1,571,751 and \$4,040,688 for the three months and nine months ended November 30, 2007. This decrease resulted from a reduction of staff due to the cessation of the financial processing business for non-domestic internet gaming merchants for US consumers.

### *Amortization of Property and Equipment*

Amortization expenses were \$85,186 and \$379,313 during the three month and nine month periods ended November 30, 2008, respectively, a decrease of 54% and 36% compared to \$184,821 and \$597,523 for the corresponding periods ended November 30, 2007. The decrease in amortization expense mainly relates to very few new assets being purchased and amortization being reduced on older equipment.

### *Net Loss*

Net loss for the three and nine month periods ended November 30, 2008 were \$1,106,477 (\$0.07 net loss per share – basic and diluted) and \$3,965,574 (\$0.28 net loss per share – basic and diluted) compared to net loss of \$2,250,752 (\$0.13 net loss per share – basic and fully diluted) and \$7,423,939 (\$0.41 net loss per share – basic and fully diluted) for the prior comparative periods.

The Company has incurred significant operating losses and net utilization of cash in operations in all prior periods. Accordingly, the Company will require continued financial support from its shareholders and creditors and/or new debt or equity financing until it is able to generate sufficient cash flow from operations on a sustained basis.

As at November 30, 2008, the Company had cash and cash equivalents of \$887,278, compared to \$2,194,883 on November 30, 2007.

During the second quarter of fiscal 2009, the company secured a US \$2 million dollar loan bearing interest at the rate of 6% per annum and repayable in two equal installments with the first due on December 11, 2008 and the second due on June 11, 2009; the loan is secured by first ranking fixed charges on the entire issued share capital of two of the Company's principal subsidiaries, ESI Integrity Inc. and Citadel Commerce UK Limited. The Company had planned to retire the entire Loan before the date for the payment of the first installment, and had entered into a Letter of Intent for the divestiture of the ESI Integrity division which, it was anticipated, would generate the necessary funds for this purpose.

However, as a consequence of the worldwide economic downturn the proposed purchaser withdrew and that proposed divestiture did not proceed. As a result, the Company was unable to meet its obligation for repayment of US\$1 million on December 11, 2008. The Company is working closely with the Lender, and is presently working on a new proposed divestiture of the ESI Integrity division which will enable it to retire the Loan; there is not yet any binding agreement for the proposed divestiture, and accordingly there can be no assurance that it will be completed or that the Loan will be repaid.

# ESI Entertainment Systems Inc.

## Consolidated Balance Sheets

(expressed in Canadian dollars)

|  | November 30,<br>2008<br>(unaudited) | February 29,<br>2008<br>(audited) |
|--|-------------------------------------|-----------------------------------|
| <b>Assets</b>                            |                                     |                                   |
| Cash and cash equivalents                | \$ 887,278                          | \$ 3,042,463                      |
| Accounts receivable                      | 1,023,009                           | 1,111,215                         |
| Prepays and Other                        | 419,306                             | 444,575                           |
|  | <u>2,329,593</u>                    | <u>4,598,253</u>                  |
| Citadel processing accounts (Note 3)     | 3,029,648                           | 1,219,205                         |
| Property and equipment (Note 4)          | 371,973                             | 718,869                           |
| Deferred contract costs                  | 1,240,948                           | 1,116,461                         |
|  | <u>\$ 6,972,162</u>                 | <u>\$ 7,652,788</u>               |
| <b>Liabilities</b>                       |                                     |                                   |
| Accounts payable and accrued liabilities | \$ 787,893                          | \$ 820,492                        |
| Loan Payable (Note 9)                    | 2,461,868                           | -                                 |
| Capital lease obligations                | 58,138                              | 214,715                           |
| Deferred revenue                         | 889,621                             | 706,773                           |
|  | <u>4,197,520</u>                    | <u>1,741,980</u>                  |
| Citadel processing liabilities (Note 3)  | 3,029,648                           | 1,530,705                         |
| Deferred revenue                         | 1,284,621                           | 1,923,472                         |
| Capital lease obligations                | -                                   | 30,684                            |
|  | <u>8,511,789</u>                    | <u>5,226,841</u>                  |
| <b>Shareholders' Equity (Deficit)</b>    |                                     |                                   |
| Capital stock (Note 5)                   | 9,957,959                           | 9,957,959                         |
| Warrants (Note 6)                        | -                                   | 5,926                             |
| Contributed surplus                      | 4,098,173                           | 4,092,247                         |
| (Deficit)                                | <u>(15,595,759)</u>                 | <u>(11,630,185)</u>               |
|  | <u>(1,539,627)</u>                  | <u>2,425,947</u>                  |
|  | <u>\$ 6,972,162</u>                 | <u>\$ 7,652,788</u>               |

On behalf of the Board

"Tony Greening" Director  
**Tony Greening**

"Michael Meeks" Director  
**Michael Meeks**

# ESI Entertainment Systems Inc.

## Consolidated Statements of Operations and Comprehensive Loss and Deficit

(expressed in Canadian dollars)

| (unaudited)   | Three Months Ended November 30, |                        | Nine Months Ended November 30, |                        |
|---|---------------------------------|------------------------|--------------------------------|------------------------|
|   | 2008                            | 2007                   | 2008                           | 2007                   |
| Revenues  | \$ 1,196,471                    | \$ 761,688             | \$ 2,808,153                   | \$ 2,219,453           |
| Direct costs  | <u>576,837</u>                  | <u>697,512</u>         | <u>2,086,399</u>               | <u>1,846,402</u>       |
| Gross profit  | <u>619,634</u>                  | <u>64,176</u>          | <u>721,754</u>                 | <u>373,051</u>         |
| Operating expenses  |                                 |                        |                                |                        |
| Product development                                       | 59,986                          | 253,197                | 267,764                        | 1,108,153              |
| Sales, marketing and customer service                     | 181,946                         | 503,545                | 658,789                        | 1,312,001              |
| General and administrative                                | 985,757                         | 1,571,751              | 2,957,975                      | 4,040,688              |
| Amortization of property and equipment                    | <u>85,186</u>                   | <u>184,821</u>         | <u>379,313</u>                 | <u>597,523</u>         |
|   | <u>1,312,875</u>                | <u>2,513,314</u>       | <u>4,263,841</u>               | <u>7,058,365</u>       |
| Earnings before under noted items                         | (693,241)                       | (2,449,138)            | (3,542,087)                    | (6,685,314)            |
| Other expenses (income)                                   |                                 |                        |                                |                        |
| Foreign exchange loss (gain)                              | 369,369                         | (162,612)              | 375,252                        | 938,300                |
| Interest income   | (6,574)                         | (43,094)               | (34,779)                       | (268,868)              |
| Interest expense  | <u>43,619</u>                   | <u>(4,354)</u>         | <u>74,485</u>                  | <u>40,508</u>          |
| Earnings before income taxes and non-controlling interest | <u>(1,099,655)</u>              | <u>(2,239,078)</u>     | <u>(3,957,045)</u>             | <u>(7,395,254)</u>     |
| Provision for income taxes                                |                                 |                        |                                |                        |
| Current   | 6,822                           | 11,674                 | 8,529                          | 28,735                 |
| Future  | <u>-</u>                        | <u>-</u>               | <u>-</u>                       | <u>-</u>               |
|   | <u>6,822</u>                    | <u>11,674</u>          | <u>8,529</u>                   | <u>28,735</u>          |
| Net loss and comprehensive loss                           | <u>\$ (1,106,477)</u>           | <u>\$ (2,250,752)</u>  | <u>\$ (3,965,574)</u>          | <u>\$ (7,423,989)</u>  |
| Earnings per share  |                                 |                        |                                |                        |
| Basic   | \$ (0.07)                       | \$ (0.13)              | \$ (0.28)                      | \$ (0.41)              |
| Diluted   | (0.07)                          | (0.13)                 | (0.28)                         | (0.41)                 |
| Deficit, beginning of period                              | \$ (14,489,282)                 | \$ (9,603,021)         | \$ (11,630,185)                | \$ (4,429,784)         |
| Net loss  | <u>(1,106,477)</u>              | <u>(2,250,752)</u>     | <u>(3,965,574)</u>             | <u>(7,423,989)</u>     |
| Deficit, end of period                                    | <u>\$ (15,595,759)</u>          | <u>\$ (11,853,773)</u> | <u>\$ (15,595,759)</u>         | <u>\$ (11,853,773)</u> |



## **About ESI Entertainment Systems Inc.**

ESI Entertainment Systems Inc. ("ESI") (TSX: ESY) provides products and services to the international gaming and e-commerce industries through its three principal subsidiaries, Citadel Commerce Corp., ESI Integrity Inc. and PlayLine Inc. ESI's products and services, which primarily consist of payment processing, transaction monitoring and turnkey gaming platforms, are deployed in the on-line and land based gaming and e-commerce markets.

## **Forward- looking Statements**

This news release contains forward-looking statements concerning ESI Entertainment Systems Inc, which statements can be identified by the use of forward-looking terminology such as "expect", "proposed", "may", "plan", "intend", "will", "would" or the negative thereof or any other variations thereon or comparable terminology referring to future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and the actual events or results could be materially different than those anticipated in those forward-looking statements as a result of numerous factors discussed more fully in the Company's Final Prospectus dated March 22, 2006, Annual Information Form and elsewhere in other filings on [www.sedar.com](http://www.sedar.com). These risks include risks related to revenue growth, operating results, industry growth, changes in regulation and legislation, products, technology, financing, competition, personnel and other factors affecting the Company and its business, any of which could cause actual events or results to vary materially from ESI's anticipated future results. Forward-looking statements are based on beliefs, opinions and expectations of ESI's management at the time they are made, and ESI does not assume any obligation to update its forward-looking statements if those beliefs, opinions or expectations, or other circumstances should change.

The Toronto Stock Exchange does not accept responsibility for this press release.

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