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News Release

**For Immediate Release July 15, 2008**

**ESI ENTERTAINMENT SYSTEMS INC ANNOUNCES  
FISCAL 2009 FIRST QUARTER FINANCIAL RESULTS**

**BURNABY, B.C. July 15, 2008-** ESI Entertainment Systems Inc. ("ESI" or the "Company") (TSX: ESY) reported today its financial results (unaudited) for fiscal Q1 2009 ended May 31, 2008. (All dollar amounts reported in Canadian funds)

**Consolidated financial highlights for the quarter include (Q1 2009 compared to Q1 2008):**

- Revenues increased 12% to \$869,000 from \$776,000
- Gross profit decreased by 42% to \$161,000 from \$280,000
- Net loss before income taxes decreased by 48% to \$1.3 million from net loss before taxes of \$2.5 million

Our financial results were mainly driven by efforts being made during the First Quarter to resolve outstanding issues with the United States Department of Justice ("DoJ") whilst at the same time working to expand the business base of ESI Integrity and rebuild the business of Citadel Commerce.

"The first quarter of fiscal 2009 presented our Management team with many challenges which have begun to bear fruit" said Tony Greening, Chair and Chief Executive Officer. "The issues with the DoJ were finally resolved by approval of a Deferred Prosecution Agreement which was approved on June 5, 2008, just a few days after the end of the First Quarter; this has enabled the Company to direct its whole attention to building and developing its business. The Company has a solid foundation to build from with a Financial Services Authority e-Money issuer status in UK, intellectual property and know-how for financial processing. We are continuing to build the client base of ESI Integrity, and also are continuing to pursue the general e-commerce markets worldwide to rebuild the business of Citadel Commerce."

## **Financial Review**

Total revenue increased by 12% to \$869,000 for the three months ended May 31, 2008 from \$776,000 for the three months ended May 31, 2007.

Gross profit was \$161,000 for the first quarter of fiscal 2009 compared to \$280,000 for the first quarter of fiscal 2008, a decrease of \$118,000, or 42%.

Product development expenses were \$117,000 during the three months ended May 31, 2008, a decrease of 75% compared to \$475,000 for the three months ended May 31, 2007. The decrease is the result of reduction in software development work on Citadel's software.

Sales, marketing and customer service expenses were \$266,000 during the three months ended May 31, 2008, a decrease of 40% compared to \$442,000 for the three months ended May 31, 2007. The decrease is primarily the result of 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 expenses were \$925,000 during the three months ended May 31, 2008 a decrease of 7.5% compared to \$1.1 million for the three months ended May 31, 2007. This decrease reflects reductions in general staff overheads and reduction in amortization costs on equipment.

Net loss for the quarter ended May 31, 2008 was \$1.3 million (\$0.07 net loss per share – basic) compared to \$2.5 million for the quarter ended May 31, 2007 (\$0.13 net earnings per share- basic and diluted). Net loss for the current quarter included a foreign exchange loss of \$5,700 compared to \$742,000 in the same period of fiscal 2008. The fully diluted loss per share has not been computed, as the effect would be anti-dilutive (meaning that the loss per share would decrease on a fully diluted basis).

Cash and cash equivalents totaled \$1.5 million at the end of the current quarter.

Subsequent to the end of the quarter, the company secured a two million dollar loan bearing interest at the rate of 6% per annum and repayable in two instalments 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.

## Consolidated Balance Sheets

(expressed in Canadian dollars)  
(unaudited)

	May 31, 2008	February 29, 2008
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 1,470,232	\$ 3,042,463
Accounts receivable	888,375	1,111,215
Prepays	577,191	444,575
	<u>2,935,798</u>	<u>4,598,253</u>
Citadel processing accounts	2,025,117	1,219,205
Property and equipment (Note 4)	549,484	718,869
Deferred contract costs	1,212,032	1,116,461
	<u>\$ 6,722,431</u>	<u>\$ 7,652,788</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 756,115	\$ 820,492
Capital lease obligations	120,828	214,715
Deferred revenue	660,168	706,773
	<u>1,537,111</u>	<u>1,741,980</u>
Citadel processing liabilities (Note 3)	2,025,117	1,530,705
Deferred revenue	2,015,932	1,923,472
Capital lease obligations	30,684	30,684
	<u>5,608,844</u>	<u>5,226,841</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 5)	9,963,885	9,957,959
Warrants (Note 6)	-	5,926
Contributed surplus	4,092,247	4,092,247
(Deficit)	<u>(12,942,545)</u>	<u>(11,630,185)</u>
	<u>1,113,587</u>	<u>2,425,947</u>
	<u>\$ 6,722,431</u>	<u>\$ 7,652,788</u>

## Consolidated Statements of Operations and Comprehensive Income (Deficit) Retained Earnings

(expressed in Canadian dollars)  
(unaudited)

Three Months Ended May 31,  
2008                      2007

	Three Months Ended May 31,	
	2008	2007
Revenues (Note 4)	\$ 869,388	\$ 775,580
Direct costs	<u>707,692</u>	<u>496,075</u>
Gross profit	<u>161,696</u>	<u>279,505</u>
Operating expenses		
Product development	116,649	475,148
Sales, marketing and customer service	265,599	441,682
General and administrative	925,048	1,073,907
Amortization of property and equipment	<u>169,385</u>	<u>211,616</u>
	<u>1,476,681</u>	<u>2,202,353</u>
(Loss) Earnings before under noted items	(1,314,985)	(1,922,848)
Other expenses (income)		
Foreign exchange (gain) loss	5,760	742,038
Interest income	(14,950)	(156,941)
Interest expense	<u>6,565</u>	<u>23,645</u>
Net (loss) earnings	<u>\$ (1,312,360)</u>	<u>\$ (2,531,590)</u>
(Loss) Earnings per share		
Basic	\$ (0.07)	\$ (0.13)
Diluted	(0.07)	(0.13)
Retained earnings (deficit), beginning of period	\$ (11,630,185)	\$ (4,429,784)
Net (loss) earnings	<u>(1,312,360)</u>	<u>(2,531,590)</u>
(Deficit) retained earnings, end of period	<u>\$ (12,942,545)</u>	<u>\$ (6,961,374)</u>

## Consolidated Statements of Cash Flows

(expressed in Canadian dollars)  
(unaudited)

Three Months Ended May 31,  
2008 2007

Cash flows provided by (used in)		
<b>Operating activities</b>		
Net (loss) earnings	\$ (1,312,360)	\$ (2,531,591)
Items not affecting cash:		
Stock-based compensation (Note 7)	-	75,216
Amortization of property and equipment	169,385	211,616
Net changes in non-cash operating items		
Accounts receivable	221,946	(18,156)
Prepays	(132,616)	(29,512)
Accounts payable and accrued liabilities	(64,377)	(297,630)
Allowance for bad debts	(310,608)	(807,500)
Deferred revenue	45,857	728,291
Deferred contract costs	(95,571)	(192,537)
	<u>(1,478,344)</u>	<u>(2,861,803)</u>
<b>Investing activities</b>		
Acquisition of property and equipment	-	(75,374)
Restricted cash	-	1,100,903
	<u>-</u>	<u>1,025,529</u>
<b>Financing activities</b>		
Capital lease payments	(93,887)	(83,300)
Software license obligation	-	(9,917)
	<u>(93,887)</u>	<u>(93,217)</u>
Increase (decrease) in cash and cash equivalents	(1,572,231)	(1,929,491)
Cash and cash equivalents, beginning of period	<u>3,042,463</u>	<u>9,453,701</u>
Cash and cash equivalents, end of period	\$ <u>1,470,232</u>	\$ <u>7,524,210</u>
<b>Supplemental information</b>		
Interest received	\$ 14,950	\$ 73,968
Interest paid	6,565	31,477

## **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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