



**ESI Entertainment Systems Inc.**

15<sup>th</sup> Floor, 4710 Kingsway Ave  
Burnaby, BC V5H 4M2  
Telephone 604.299.6922  
Facsimile 604.299.3984  
[www.esi.ca](http://www.esi.ca)

News Release

**For Immediate Release July 29, 2009**

**ESI ENTERTAINMENT SYSTEMS INC ANNOUNCES  
FISCAL 2010 FIRST QUARTER FINANCIAL RESULTS**

**BURNABY, B.C. July 29, 2009-** ESI Entertainment Systems Inc. ("ESI" or the "Company") (CNSX: ESY) reported today its financial results (unaudited) for fiscal Q1 2010 ended May 31, 2009. (All dollar amounts reported in Canadian funds)

**Consolidated financial highlights for the quarter include (Q1 2010 compared to Q1 2009):**

- Revenues decreased by 4% to \$834,000 from \$869,000
- Gross profit margin remained at 19%, unchanged from the prior period
- Operating Expenses decreased by 42% to \$851,000 from \$1,476,000
- Net loss before income taxes decreased by 60% to \$522,000 from a net loss before income tax of \$1.3 million.

Our financial results were mainly driven by efforts being made during the First Quarter to reduce operating expenses 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 2010 has continued to present us challenges but our experienced Management team and Board have worked well together to allow us to weather these difficult conditions" said Tony Greening, Chair and Chief Executive Officer. "Each of the two operating subsidiaries has closely governed expenditures while remaining focused on building its business, ESI Integrity has continued to provide the group with a solid business foundation while Citadel builds on the relationships it has developed for use of its products and services to re-build its revenues."

## **Financial Review**

Total revenue decreased by 4% to \$834,000 for the three months ended May 31, 2009 from \$869,000 for the three months ended May 31, 2008.

Gross profit margin remained consistent during the three months ended May 31, 2009 compared to the same period ending May 31, 2008, a gross profit margin of 19%.

Product development expenses were \$63,000 during the three months ended May 31, 2009, a decrease of 46% compared to \$117,000 for the three months ended May 31, 2008.

Sales, marketing and customer service expenses were \$40,000 during the three months ended May 31, 2009, a decrease of 85% compared to \$266,000 for the three months ended May 31, 2008. 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 expenses were \$676,000 during the three months ended May 31, 2009, a decrease of 27% compared to \$925,000 for the three months ended May 31, 2008. This reduction is due to the Company's ongoing efforts to minimize its operating expenses.

Amortization expenses were \$72,000 during the three months ended May 31, 2009, a decrease of 57% compared to \$169,000 for the three months ended May 31, 2008. The decrease in amortization expense results from very few new assets being purchased and amortization being reduced on older equipment.

Net loss for the quarter ended May 31, 2009 was \$522,000 compared to a loss of \$1.3 million for the quarter ended May 31, 2008, a decrease of 60%.

Citadel processing accounts as at May 31, 2009 totaled \$3.9 million compared to \$2.9 million as at February 28, 2009. The accounts are comprised of cash, which are segregated bank funds arising from the processing of deposits and payments for Citadel merchants and consumers, and accounts receivable relating to Citadel processing accounts for funds in transit from merchants and consumers.

## Consolidated Balance Sheets

(expressed in Canadian dollars)  
(unaudited)

	May 31, 2009	February 28, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 93,529	\$ 909,785
Accounts receivable	1,388,520	1,100,023
Prepays	81,965	106,513
	<u>1,564,014</u>	<u>2,116,321</u>
Citadel processing accounts	3,889,847	2,958,565
Property and equipment	216,151	280,725
Deferred contract costs	<u>688,426</u>	<u>696,234</u>
	<u>\$ 6,358,438</u>	<u>\$ 6,051,845</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,273,969	\$ 1,049,700
Loan Payable	2,234,100	2,564,704
Capital lease obligations	17,794	30,684
Deferred revenue	<u>737,126</u>	<u>535,667</u>
	<u>4,262,989</u>	<u>4,180,755</u>
Citadel processing liabilities	3,889,847	2,958,565
Deferred revenue	<u>1,139,592</u>	<u>1,324,392</u>
	<u>9,292,428</u>	<u>8,463,712</u>
<b>Shareholders' Equity</b>		
Capital stock	9,957,959	9,957,959
Contributed surplus	4,328,885	4,328,885
(Deficit)	<u>(17,220,834)</u>	<u>(16,698,711)</u>
	<u>(2,933,990)</u>	<u>(2,411,867)</u>
	<u>\$ 6,358,438</u>	<u>\$ 6,051,845</u>

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

(expressed in Canadian dollars)  
(unaudited)

	Three Months Ended May 31,	
	2009	2008
Revenues	\$ 833,991	\$ 869,388
Direct costs	<u>674,237</u>	<u>707,692</u>
Gross profit	<u>159,754</u>	<u>161,696</u>
Operating expenses		
Product development	63,308	116,649
Sales, marketing and customer service	40,325	265,599
General and administrative	675,735	925,048
Amortization of property and equipment	<u>72,226</u>	<u>169,385</u>
	<u>851,594</u>	<u>1,476,681</u>
(Loss) Earnings before under noted items	(691,840)	(1,314,985)
Other expenses (income)		
Foreign exchange (gain) loss	(215,345)	5,760
Interest income	(690)	(14,950)
Interest expense	<u>46,318</u>	<u>6,565</u>
Net (loss) earnings	\$ <u>(522,123)</u>	\$ <u>(1,312,360)</u>
(Loss) Earnings per share		
Basic	\$ (0.04)	\$ (0.07)
Diluted	(0.04)	(0.07)
Retained earnings (deficit), beginning of period	\$ (16,698,711)	\$ (11,630,185)
Net (loss) earnings	<u>(522,123)</u>	<u>(1,312,360)</u>
(Deficit) retained earnings, end of period	\$ <u>(17,220,834)</u>	\$ <u>(12,942,545)</u>

## Consolidated Statements of Cash Flows

(expressed in Canadian dollars)  
(unaudited)

Three Months Ended May 31,  
2009 2008

Cash flows provided by (used in)

### Operating activities

Net (loss) earnings \$ (522,123) \$ (1,312,360)

Items not affecting cash:

Amortization of property and equipment 72,226 169,385

Net changes in non-cash operating items

Accounts receivable (288,497) 221,946

Prepays 24,548 (132,616)

Accounts payable and accrued liabilities 224,268 (64,377)

Allowance for bad debts - (310,608)

Deferred revenue 16,658 45,857

Deferred contract costs 7,809 (95,571)

(465,111) (1,478,344)

### Investing activities

Acquisition of property and equipment (7,652) -

(7,652) -

### Financing activities

Capital lease payments (12,890) (93,887)

Loan Payable (330,603) -

(343,493) (93,887)

Increase (decrease) in cash and cash equivalents

(816,256) (1,572,231)

Cash and cash equivalents, beginning of period

909,785 3,042,463

Cash and cash equivalents, end of period

\$ 93,529 \$ 1,470,232

### Supplemental information

Interest received \$ 690 \$ 14,950

Interest paid 46,318 6,565

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

ESI Entertainment Systems Inc (CNSX: ESY) is an idea generation and software development company. We develop concepts, create prototypes, establish partnerships and validate potential markets. When we have proven a product and its opportunities we create subsidiaries with a dedicated team, infrastructure, and resources to allow it to focus on building and selling the product to its market niche. Our team of experienced and dedicated people have led us to be revolutionary market leaders in many industries, including e-commerce payment technologies, hardware based input devices, real time auditing systems, transaction processing systems, graphical 3D displays, e-commerce web services, and payment fraud and risk mitigation. Since formation in 1999 ESI Entertainment Systems Inc has created three independently operated and controlled subsidiaries based on validated and proven products: Citadel Commerce Corp., ESI Integrity Inc., and PlayLine Inc. PlayLine Inc. is presently dormant.

### **Forward looking Statements**

This news release may contain 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 Canadian National Stock Exchange does not accept responsibility for this press release.

For further information please contact:

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

#### **Tony Greening**

Chief Executive Officer

Telephone: (604) 299-6922

[email: tgreening@esi.ca](mailto:tgreening@esi.ca)

Web: [www.esi.ca](http://www.esi.ca)