

POKER MAGIC INC
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR

- TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-16686

POKER MAGIC, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or
organization)

20-4709758
(I.R.S. Employer Identification No.)

130 West Lake Street, Suite 300, Wayzata, MN
(Address of Principal Executive Offices)

(952) 473-3442
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

As of November 9, 2011 there were 11,180,224 shares of the issuer's common stock, \$0.001 par value, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Poker Magic, Inc.
(A Development Stage Company)
Balance Sheets

	September 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Current Assets		
Cash	\$ 10,036	\$ 3,081
Total Current Assets	10,036	3,081
Total Assets	\$ 10,036	\$ 3,081
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable	\$ 7,910	\$ 8,823
Accrued royalty	270	270
Note payable related party – short-term	183,502	94,800
Interest payable	-	4,027
Total Current Liabilities	191,682	107,920
Long-Term Liabilities		
Notes payable related party – long-term	-	11,200
Total Long-Term Liabilities	-	11,200
Total Liabilities	191,682	119,120
Commitments and contingencies		
Shareholders' Deficit		
Common Stock, \$.001 par value: Authorized 250,000,000 shares:		
Issued and outstanding 11,180,224 and 11,008,224 shares on September 30, 2011 and December 31, 2010, respectively.	11,180	11,008
Additional paid-in capital	750,160	714,332
Deficit accumulated during the development stage	(942,986)	(841,379)
Total Shareholders' Deficit	(181,646)	(116,039)
Total Liabilities and Shareholders' Deficit	\$ 10,036	\$ 3,081

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Statements of Operations
(unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Period from January 10, 2006 (inception) through September 30, 2011
Revenues	\$ -	\$ 600	\$ -	\$ 2,400	\$ 12,375
Cost of Revenues	-	2,098	-	6,324	61,800
Gross Loss	-	(1,498)	-	(3,924)	(49,425)
Operating Expenses:					
Selling, General and Administrative	23,952	23,202	88,131	85,532	872,261
Operating Loss	(23,952)	(24,700)	(88,131)	(89,456)	(921,686)
Other Income (Expense)					
Interest income	-	-	-	-	2,203
Interest expense	(5,190)	(2,624)	(13,476)	(6,257)	(23,503)
Total Other Income (Expense)	(5,190)	(2,624)	(13,476)	(6,257)	(21,300)
Net Loss	\$ (29,142)	\$ (27,324)	\$ (101,607)	\$ (95,713)	\$ (942,986)
Basic and diluted net loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.11)
Weighted-average number of common shares outstanding	11,132,224	10,233,224	11,058,012	10,094,213	8,562,066

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Statements of Cash Flows
(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Period from January 10, 2006 (inception) to September 30, 2011
Cash flows from operating activities:			
Net loss	\$ (101,607)	(95,713)	(942,986)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of intangible asset	-	6,204	38,599
Impairment of inventory and intangible assets	-	-	4,379
Common stock issued for services	-	-	6,500
Consulting service expense paid in stock	-	-	134,341
Officers compensation expense paid in stock	36,000	36,000	194,000
Officers compensation expense as contributed capital	-	-	50,000
Changes in operating assets and liabilities:			
Inventory	-	-	(871)
Prepaid expense	-	-	5,434
Accounts payable	(913)	(2,751)	7,910
Accrued royalty	-	120	270
Interest payable	13,475	6,257	23,502
Deferred revenue	-	(975)	-
Net cash used in operating activities	(53,045)	(50,858)	(478,922)
Cash flows from investing activities:			
Acquisition of Select Video assets	-	-	(17,000)
Net cash used in investing activities	-	-	(17,000)
Cash flows from financing activities:			
Proceeds from subscription receivable	-	-	14,000
Proceeds from issuance of common stock	-	-	426,000
Redemption of common stock	-	-	(91,667)
Proceeds from note payable related party	60,000	50,000	160,000
Payment of short-term debt	-	-	(2,375)
Net cash provided by financing activities	60,000	50,000	505,958
Net increase (decrease) in cash	6,955	(858)	10,036
Cash, beginning of the period	3,081	5,464	-
Cash, end of the period	\$ 10,036	4,606	\$ 10,036

Non-cash investing and financing activities:

Acquisition of certain assets and liabilities of Select Video in exchange for common stock

Inventory	\$ -	\$ -	\$ 750
Intangible Asset	-	-	24,357
Accounts Payable	-	-	(32,000)
Note Payable	-	-	(7,084)
Accrued interest converted into note payable	17,502	1,200	23,502
Stock issued in lieu of cash for note payable	-	-	19,709
Stock issued in lieu of cash for prepaid services	-	-	175,400
Stock subscriptions received for common stock	-	-	14,000

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Notes to Financial Statements
September 30, 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations and basis of presentation

Poker Magic, Inc. (the “Company”) is a development stage company that was incorporated in the State of Minnesota on January 10, 2006. Our business consists primarily of marketing and licensing a new form of poker-based table game to casinos and on-line gaming facilities in the United States.

Interim financial information

The following condensed balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other period. The accompanying financial statements and related notes should be read in conjunction with the audited Financial Statements of the Company, and notes thereto, contained in this filing for the year ended December 31, 2010. The financial information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the results of the interim periods presented in order to make the financial statements not misleading.

Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the period from January 10, 2006 (inception) to September 30, 2011, the Company incurred a net loss of \$942,986. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability, producing revenues and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and to support the revenue generating process; however, there can be no assurance that the sources will be available or available on terms favorable to the Company, if at all.

Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash, accounts payable, and notes payable approximate fair value due to their relatively short maturities.

NOTE 2—NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding during the period. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows:

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	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Numerator: Net Loss	\$ (29,142)	(27,324)
Denominator: Weighted-average number of common shares outstanding	11,132,224	10,233,224
Basic and diluted net loss per common share	\$ (0.00)	(0.00)

	Period from January 10, 2006 (inception) to		
	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	September 30, 2011
Numerator: Net Loss	\$ (101,607)	\$ (95,713)	\$ (942,986)
Denominator: Weighted-average number of common shares outstanding	11,058,012	10,094,213	8,562,066
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.11)

The 1,000,000 outstanding warrants at March 31, 2010 were excluded from the calculation of diluted loss per share as their effects were anti-dilutive due to the Company's net losses for that period. These warrants expired on May 27, 2010.

NOTE 3—COMMITMENTS AND CONTINGENCIES

The asset purchase agreement with Select Video dated March 10, 2006, provides that when the Company receives any revenue generated by Winner's Pot Poker and other similar games, Select Video will be entitled to receive an amount equal to five percent (5%) of all gross proceeds generated by these games.

As of both September 30, 2011 and December 31, 2010, \$270 was owed to Select Video under this agreement.

NOTE 4—SHAREHOLDERS' DEFICIT

Common stock

On January 10, 2006, the founders of the Company purchased 2,500,000 shares of common stock for \$2,500.

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video in exchange for 3,022,991 shares of common stock issued at the deemed fair market value of \$.001 per share or \$3,023.

On May 23, 2006, the Company issued 60,000 shares of common stock at \$0.25 per share in lieu of cash for liabilities assumed.

During 2006, the Company raised additional cash of \$87,500 at \$0.25 per share through the issuance of 350,000 shares of common stock.

During 2006, the Company issued 22,000 shares to various consultants at \$0.25 per share for services rendered.

During 2006, the Company issued 100,000 shares valued at \$4,000 (value of the services to be provided) for services rendered and to be rendered.

On January 15, 2007, the Company issued 600,000 shares of common stock to two consultants for services to be provided over a 12 month period commencing on January 15, 2007. These services were valued at \$50,000.

On January 15, 2007, the Company issued 500,000 shares of common stock to the two founders for their services to be provided over a 12 month period commencing January 15, 2007. These services were valued at \$48,000.

On July 26, 2007, the Company settled the note payable of \$7,084 for a cash payment of \$2,375 and the issuance of 20,000 shares of common stock valued at \$4,709 for payment in full on the note.

In July 2007, the Company raised cash of \$20,000 at \$0.25 per share through the issuance of 80,000 shares of common stock.

On August 1, 2007, the Company issued 65,000 shares of common stock for services to be provided over a 12 month period commencing retroactively on June 1, 2007. These services were valued at \$5,000.

On August 1, 2007, the Company issued 100,000 shares of common stock to a consultant for services to be provided over a 12 month period commencing on August 1, 2007. These services were valued at \$8,300.

On August 1, 2007, the Company issued 25,000 shares of common stock for services. These services were valued at \$1,000.

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On November 26, 2007, the Company issued 50,000 shares of common stock to a consultant for services to be provided over a 12 month period commencing on November 26, 2007. These services were valued at \$12,500.

In December 2007, the Company raised cash of \$30,000 at \$0.25 per share through the issuance of 120,000 shares of common stock.

In January 2008, the Company raised cash of \$25,000 at \$0.25 per share through the issuance of 100,000 shares of common stock.

On May 28, 2008, the Company raised cash of \$250,000 at \$0.25 per share through the issuance of 1,000,000 shares of common stock together with a warrant, classified as permanent equity, to purchase up to 1,000,000 shares of common stock, which was immediately exercisable. The warrants do not possess any embedded derivative features. The exercise price was \$0.25 per share if purchased within six months of issuance. The exercise price increased to \$0.425 for months seven through twelve (after the date of issuance) and to \$0.50 after twelve months. The warrant expired on May 27, 2010.

In May 2008, the Company raised cash of \$12,500 at \$0.25 per share through the issuance of 50,000 shares of common stock.

On August 26, 2008, the Company issued 200,000 shares of common stock to a consultant for services to be provided over a five month period commencing on August 1, 2008. These services were valued at \$20,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a five month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a twelve month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 10,000 shares of common stock for services. These services were valued at \$2,500.

On August 26, 2008, the Company issued 50,000 shares of common stock for services. These services were valued at \$5,000.

On December 16, 2008, the Company issued 40,400 shares of common stock for services. These services were valued at \$10,100.

On December 31, 2008, the Company issued 32,000 shares of common stock for officer compensation. These services were valued at \$8,000.

On February 25, 2009, the Company redeemed, at the request of a non-affiliate shareholder, 366,667 shares of common stock held by a single shareholder at a price of \$.25 per share, for a total amount of \$91,667, which was the price originally paid for the redeemed shares.

On June 30, 2009, the Company issued 400,000 shares of common stock for officer compensation with a fair value of \$12,000.

On June 30, 2009, the Company issued 200,000 shares of common stock for officer bonus compensation with a fair value of \$6,000.

On June 30, 2009, the Company issued 50,000 shares of common stock for consultant service bonus with a fair value of \$1,500.

On June 30, 2009, the Company issued 5,000 shares of common stock for services with a fair value of \$150.

On June 30, 2009, the Company issued 7,500 shares of common stock for services with a fair value of \$225.

On September 30, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On December 31, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On March 31, 2010, the Company issued 120,000 shares of common stock for officer compensation with a fair value of \$12,000.

On June 30, 2010, the Company issued 150,000 shares of common stock for officer compensation with a fair value of \$12,000.

On September 30, 2010, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On December 31, 2010, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On December 31, 2010, the Company issued 200,000 shares of common stock for officer bonus compensation with a fair value of \$12,000.

On December 31, 2010, the Company issued 125,000 shares of common stock as a bonus to a consultant for services with a fair value of \$7,500.

On December 31, 2010, the Company issued 50,000 shares of common stock for consultant services with a fair value of \$3,000.

On March 31, 2011, the Company issued 24,000 shares of common stock for officer compensation with a fair value of \$12,000.

On June 30, 2011, the Company issued 100,000 shares of common stock for officer compensation with a fair value of \$12,000.

On September 30, 2011, the Company issued 48,000 shares of common stock for officer compensation with a fair value of \$12,000.

At September 30, 2011, a total of 11,180,224 shares of common stock were issued and outstanding.

NOTE 5—INCOME TAXES

The Company applies the guidance for accounting for uncertainty in income tax provisions. As such, the Company is required to recognize in the financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Interest and penalties are expensed as incurred as operating expenses. There are no uncertain tax positions at September 30, 2011 and December 31, 2010.

At September 30, 2011, the Company had federal and state net operating loss carryforward of approximately \$898,000 available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2027 if not used before such time to offset future taxable income or tax liabilities. Current and future changes in the stock ownership of the Company may place limitations on the use of these net operating loss carryforwards.

NOTE 6—NOTES PAYABLE RELATED PARTY – SHORT-TERM

On July 15, 2011, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company \$20,000 under terms and conditions set forth in an unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until July 15, 2012, at which time the promissory note becomes due.

On October 19, 2010, Douglas Polinsky and Joseph A. Geraci, II, both officers of the Company, each loaned the Company \$5,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory notes at the rate of 12% per annum, and require that accrued interest be paid on a monthly basis until October 18, 2011, at which time the

entire unpaid principal balance of \$5,000 together with the unpaid accrued interest of \$569 (accrued at 12% per annum) became due and payable. Messrs. Polinsky and Geraci both agreed to renew the unsecured term promissory notes and interest payable of \$5,569 each on September 30, 2011 for a term of six months. The promissory notes have the same terms as those contained in the original promissory notes and have a maturity date of March 31, 2011.

From July 30, 2009 to July 15, 2011, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company a total of \$150,000 under terms and conditions set forth in unsecured term promissory notes. The promissory notes provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and required that accrued interest be paid on a monthly basis until maturity, at which time the entire unpaid principal balance of the promissory note became due. On September 30, 2011, Lantern Advisers and the Company consolidated these promissory notes and the accrued but unpaid interest into a new promissory note in the amount of \$172,364. The new promissory note has the same terms as those contained in the original promissory notes and has a maturity date of March 31, 2012.

Total short-term related party notes at September 30, 2011 and December 31, 2010 were \$183,502 and \$94,800, respectively, and provided working capital for the Company. Total long-term related party notes at September 30, 2011 and December 31, 2010 were \$0 and \$11,200, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, contained in our Form 10-K filed with the SEC on March 4, 2011 and related to our year ended December 31, 2010, and the period from January 10, 2006 (inception) to December 31, 2010.

Forward-Looking Statements

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual actions or future results may be materially different from the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this report. Examples of specific factors that might cause our actual results to differ from our current expectations include but are not limited to:

- Our lack of a significant prior operating history to provide our management with a basis to better evaluate certain likelihoods
 - Our need for additional financing
- The significant risk that our game may not be accepted by casinos or gaming establishments or, ultimately, by gaming consumers and enthusiasts
- Our inability to obtain required registrations, licenses and approvals with or from appropriate state gaming authorities
 - Changes in legal and regulatory regimes applicable to our business or our games
 - Our inability to effectively protect our intellectual property, or
 - Our inability, for any reason, to retain our executive management personnel.

The foregoing list is not exhaustive. In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Poker Magic, Inc. or any other person that our objectives, plans, expectations or projections contained in this filing will be achieved in any specified time frame, if ever.

General Overview

Poker Magic Inc. is a Minnesota corporation formed in January 2006. In this report, we refer to Poker Magic, Inc. as “we,” “us,” “Poker Magic” or the “Company.” We are a development-stage company focused on promoting and placing our Winner's Pot Poker game into casinos and entertainment facilities country-wide, including those located in Native American tribal lands. We believe that the long-term success of our operations will be determined by our ability to bring new and innovative products, game play and services to the market.

Our current gaming product is “Winner’s Pot Poker,” which is a table game form of five-card stud poker. In the Winner’s Pot Poker game, the dealer deals each player, and the dealer himself, two cards face down and three cards face up. Each player “antes” before the deal to be eligible to receive cards in the game. After each player has received his or her first three cards from the dealer, each player may either fold or place a first bet equal to the ante. The first bet may not be any more or less than the ante. After the next card is dealt, each of the remaining players has a choice between folding or placing a second bet that must be equal to twice the ante. The dealer may not fold. After the last card is dealt, the hands are compared and the winning hand (determined by using standard poker rankings) takes a predetermined percentage of the total bets and antes made in the course of the game. In addition, players are entitled to make certain optional “bonus bets.”

For the three and nine months ended September 30, 2011, we did not generate any revenues. For the three and nine months ended September 30, 2011, we also did not incur any revenue-related costs but did incur \$23,952 and \$88,131 in operating expenses, respectively. Our expenses related primarily to our efforts to market our Winner's Pot Poker game to casinos and gaming establishments, generate revenues and expand our revenue base, as well as other selling, general and administrative expenses. The most significant components of these other selling, general and administrative expenses were (i) compensation expense attributable to share issuances to executive management for services rendered, and (ii) expenses for professional services such as legal and accounting services.

As of September 30, 2011, we had \$10,036 in cash on hand and current liabilities of \$191,682, which consist primarily of short-term notes payable to related parties. As of the date of this filing, we had approximately \$10,385 in cash on hand, and our management presently believes this cash will be sufficient to continue operations through December 2011. Thereafter, we expect we will require additional capital. If our present expectations relating to our expenses prove inaccurate and we incur more expenses than anticipated, we will be required to obtain additional financing prior to the end of December 2011.

Management believes that the most significant uncertainties facing the Company relate to our ability to generate revenues, the accuracy of our expense forecast, our ability to acquire necessary licenses, registrations and approvals, and our ability to obtain financing when and as needed and on terms acceptable to us. These uncertainties are discussed in greater detail under the caption "Trends and Uncertainties."

Results of Operations for the Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Item	Three Months Ended		% Change (Year Over Year)	% of 2011 Net Loss	% of 2010 Net Loss			
	9/30/11	9/30/10						
Revenues	\$-	\$600	N/A	-	%	(2.2)	%	
Cost of Revenues	-	2,098	N/A	-	%	7.7	%	
Operating Expenses:								
General Operating Expenses	617	951	(35.0)	%	2.1	%	3.5	%
Legal and Accounting Expenses	11,335	10,251	10.6	%	38.9	%	37.5	%
Executive Management Compensation in Stock	12,000	12,000	-	%	41.2	%	43.9	%
Other Income (Expense)	(5,190)	(2,624)	97.8	%	17.8	%	9.6	%
Net Loss	\$(29,142)	\$(27,324)	6.7	%	100	%	100	%

As the table above demonstrates, during the three months ended September 30, 2011 and 2010, we had revenues of \$0 and \$600, respectively, and incurred \$0 and \$2,098, respectively, in revenue-related costs. During 2010, we had one contract with one client that utilized one weekend-only game. That contract terminated in December 2010. Therefore, we anticipate lower, if any, revenues in fiscal 2011 compared to fiscal 2010 since we have thus far been unable to secure any additional contracts with clients. Our cost of revenues primarily include advertising, amortization, and royalty expenses.

Our operating expenses increased 6.7% in the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to slight increases in operating and legal, accounting and general operating expenses. We expect these expenses will remain stable throughout the remainder of 2011.