

NETLOGIC MICROSYSTEMS INC
Form DEF 14A
April 27, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

NETLOGIC MICROSYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NETLOGIC MICROSYSTEMS, INC.

1875 Charleston Road

Mountain View, CA 94043

Dear Stockholder,

You are cordially invited to attend the 2010 Annual Meeting of Stockholders (the Annual Meeting) of NetLogic Microsystems, Inc. (the Company), to be held on May 21, 2010, 8:00 a.m., Pacific time, at the offices of Bingham McCutchen LLP, 1900 University Avenue, East Palo Alto, California 94303.

It is important that your shares be represented and voted at the meeting. Whether you plan to attend the Annual Meeting or not, it is important that you promptly register your vote in accordance with the instructions set forth on the enclosed proxy card. A return addressed envelope is enclosed for your convenience. This will ensure your proper representation at the Annual Meeting. Returning the proxy does not deprive you of your right to attend the Annual Meeting. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

The matters expected to be acted upon at the meeting are described in detail in the following Notice of the 2010 Annual Meeting of Stockholders and Proxy Statement. In particular, I would like to highlight Proposal 2 pursuant to which we are proposing to increase the number of shares available for issuance under our 2004 Equity Incentive Plan (the Incentive Plan) by 2,700,000 shares.

The proposed increase in reserved shares under the Incentive Plan is essential because equity compensation remains a significant component of our long-term compensation policy, which significantly contributes to a competitive advantage in the employment marketplace. Employees with a stake in the future success of our business are highly motivated to achieve long-term growth and increase stockholder value. The purpose of this proposal is to provide a sufficient share reserve and added flexibility to continue to provide new hires, management and other employees with opportunities for equity ownership for the next few years, taking into account our projected hiring growth and the possibility of additional strategic transactions during this period.

Since we became a public company in 2004, our revenue has grown rapidly, and we have increased the size of our workforce worldwide seven-fold, including new employees from a number of acquisitions, like our most recent acquisition of RMI Corporation. As a high-growth semiconductor company, we expect to continue the broad-based use of equity compensation to help retain our talented employees and recruit the finest new employees. I urge you to support Proposal 2 on the agenda.

On behalf of our board of directors, I would like to express our appreciation for your continued interest in the affairs of the Company. We look forward to seeing you at the Annual Meeting.

Sincerely,

Ronald S. Jankov
President and Chief Executive Officer

First mailed to stockholders on

or about April 26, 2010

YOUR VOTE IS IMPORTANT.

PLEASE REMEMBER TO PROMPTLY RETURN YOUR PROXY.

NETLOGIC MICROSYSTEMS, INC.

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

To be held on May 21, 2010

To the Stockholders of NetLogic Microsystems, Inc.:

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Stockholders (the Annual Meeting) of NetLogic Microsystems, Inc., a Delaware corporation (the Company), will be held on May 21, 2010, at 8:00 a.m., Pacific time, at the offices of Bingham McCutchen LLP, 1900 University Avenue, East Palo Alto, California 94303, for the following purposes:

1. To elect two members in Class III of our board of directors to hold office until the 2013 annual meeting of stockholders or until their respective successors have been elected or appointed. The nominees are Leonard Perham and Alan Krock;
2. To approve an increase in the number of shares currently reserved for issuance under the Company s 2004 Equity Incentive Plan by adding to the share reserve thereunder an additional 2,700,000 shares;
3. To ratify the Audit Committee s appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2010; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment of the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Our board of directors has fixed the close of business on March 24, 2010 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournments of the Annual Meeting. A list of such stockholders will be available for inspection at the principal office of the Company.

You are cordially invited to attend the Annual Meeting. However, to ensure that you are represented at the Annual Meeting, please register your vote as promptly as possible in accordance with the instructions set forth on the enclosed proxy card. A return addressed envelope is enclosed for your convenience. If you attend the Annual Meeting, you may vote in person even though you have returned a proxy card previously. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS
Roland B. Cortes
Secretary

Mountain View, California

April 26, 2010

NETLOGIC MICROSYSTEMS, INC.

1875 Charleston Road

Mountain View, California 94043

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the board of directors of NetLogic Microsystems, Inc., a Delaware corporation (the Company), of proxies, in the accompanying form, to be used at the 2010 Annual Meeting of Stockholders (the Annual Meeting) to be held at the offices of Bingham McCutchen LLP, 1900 University Avenue, East Palo Alto, California 94303, on May 21, 2010, at 8:00 a.m., Pacific time, and any adjournments of the Annual Meeting. Unless the context otherwise requires, the Company, we, us, and similar terms refer to NetLogic Microsystems, Inc.

If you need directions to the location of the Annual Meeting in order to attend the meeting and vote in person, please contact Roland Cortes at (650) 961-6676.

This Proxy Statement and the accompanying proxy card are being mailed on or about April 26, 2010 to all stockholders entitled to notice of and to vote at the Annual Meeting.

SOLICITATION AND VOTING PROCEDURES

Shares represented by valid proxies in the form enclosed received in time for use at the Annual Meeting and not revoked at or prior to the Annual Meeting will be voted at the Annual Meeting, as discussed below. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the Annual Meeting. Holders of our common stock are entitled to one vote per share on all matters. To vote in person, a stockholder must attend the Annual Meeting, and then complete and submit the ballot provided at the meeting. To vote by proxy, a stockholder must mark, sign, and date the enclosed proxy card and mail it to our transfer agent or submit proxy instructions electronically by using the Internet and logging on to www.eproxy.com/netl/ as provided on the proxy card. The board of directors has appointed Ronald Jankov and Roland Cortes as holders of the proxies submitted in response to the solicitation pursuant to this Proxy Statement. An automated system administered by our transfer agent tabulates stockholder votes submitted by proxy, and an officer of the Company will tabulate votes cast in person at the Annual Meeting.

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Abstentions and Broker Non-Votes. Brokers holding shares in street name for customers have the discretionary authority to vote on certain matters when they have not received instructions from the beneficial owners of shares. Under the Delaware General Corporation Law, an abstaining vote and a broker non-vote are counted as present and are, therefore, included for purposes of determining whether a quorum of shares is present at the Annual Meeting. A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner signs and returns a proxy with respect to shares of common stock held in a fiduciary capacity (typically referred to as being held in street name) but does not vote on a particular matter because the nominee does not have the discretionary voting power with respect to that matter and has not received instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters but not on non-routine matters. The uncontested election of nominees for the board and the proposed increase in the number of shares reserved for issuance under the 2004 Equity Incentive Plan (the Incentive Plan) are non-routine matters under these rules. Brokers that do not receive instructions from the beneficial owners of the shares are entitled to vote only on Proposal No. 3 (the ratification of appointment by the Audit Committee of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the 2010 audit).

Broker non-votes are considered present but not entitled to vote. Broker non-votes will not affect the outcome of the vote on any of the proposals at the Annual Meeting because broker non-votes are excluded from the tabulation of votes cast on each proposal. Abstentions are counted as present and entitled to vote for purposes of establishing a quorum. An abstention will have no effect on the election of directors under Proposal No. 1. An abstention will have the same effect as a vote against the proposal to increase the number of shares of common stock reserved for issuance under the Incentive Plan under Proposal No. 2 and the ratification of the appointment by the Audit Committee of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the 2010 audit under Proposal No. 3 because abstentions are included in the tabulation of votes cast on each of these proposals.

Required vote. The voting requirements for the proposals that we will consider at the Annual Meeting are as follows:

Election of Directors. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting, and the two directors who receive the most votes will be elected to our board of directors.

Approval of Amendments to and Terms of 2004 Equity Incentive Plan. An affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is necessary for approval of Proposal No. 2 to increase the number of shares available for issuance under the Incentive Plan.

Ratification of Appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm. An affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting is necessary for approval of Proposal No. 3 to ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the audit of our fiscal 2010 financial statements.

All proxies will be voted as specified on the proxy cards submitted by stockholders if the proxy is properly executed or electronically submitted and is received by us prior to the close of voting at the Annual Meeting or any adjournment or postponement of the Annual Meeting. If no choice has been specified, the proxy holders will vote a properly completed and timely returned or electronically submitted proxy card for our board of directors' nominees under Proposal No. 1 and for Proposal No. 2, which are described in detail elsewhere in this Proxy Statement. In addition, all properly completed and timely returned or electronically submitted proxy cards will be voted by the proxy holders in their discretion for any other matters properly and timely submitted for a vote at the Annual Meeting.

The close of business on March 24, 2010 has been fixed as the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting. Only holders of our common stock at the close of business on March 24, 2010 will be entitled to notice of and to vote at the Annual Meeting. As of that date, we had 58,441,290 shares of common stock outstanding and entitled to vote. Each share of our common stock is entitled to one vote per share.

The cost of soliciting proxies, including expenses in connection with preparing and mailing this Proxy Statement and other proxy materials will be borne by us. Copies of solicitation material will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. We will reimburse brokerage firms and other persons representing beneficial owners of common stock for their expenses in forwarding proxy material to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, electronic facsimile transmission and other electronic means, and personal solicitation by our directors, officers or employees. No additional compensation will be paid to our directors, officers or employees for such solicitation. We have retained Wells Fargo Shareowner Services to assist in the distribution of proxies for a fee estimated to be approximately \$5,000 plus reasonable out-of-pocket expenses. We have retained The Altman Group to assist us in the solicitation of proxies, and The Altman Group will receive a base fee of \$8,000 for this service, in addition to set-up fees and hourly charges for each call campaign.

Copies of our 2009 Annual Report on Form 10-K/A are being mailed to stockholders with this Proxy Statement. Additional copies of our 2009 Annual Report on Form 10-K/A, excluding exhibits, may be obtained by any stockholder without charge by making a request through our website Investor Information pages at www.netlogicmicro.com or by written request addressed to: Investor Relations, NetLogic Microsystems, Inc., 1875 Charleston Road, Mountain View, California 94043. Electronic copies of our 2009 Annual Report on Form 10-K/A, this Proxy Statement and the proxy card can also be found on our website Investor Information pages at www.netlogicmicro.com.

SPECIAL NOTE REGARDING SHARES HELD IN BROKER ACCOUNTS

Recently, the SEC approved the amendment of the New York Stock Exchange rule applicable to voting shares held in brokerage accounts by its member firms with respect voting in elections for directors. Under the amended rule, if you do not vote your shares on Proposal No. 1 (Election of Directors), your brokerage firm can no longer vote them for you and your shares will remain unvoted for this purpose. Previously, if your broker did not receive instructions from you, he was permitted to vote your shares for you in director elections. Therefore, it is very important that you vote your shares for all proposals, including the election of directors.

REVOCABILITY OF PROXIES

You can revoke your proxy at any time before the voting at the Annual Meeting by sending a properly signed written notice of your revocation to the Secretary of the Company, by submitting another proxy that is properly signed and bearing a later date, by following the specified procedures for submitting a proxy electronically and changing your vote, or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not itself revoke an earlier submitted proxy. You should direct any written notices of revocation and related correspondence to NetLogic Microsystems, Inc., 1875 Charleston Road, Mountain View, California 94043, Attention: Secretary.

* * *

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 21, 2010

This Proxy Statement, the Proxy Card and our 2009 Annual Report are available at

<http://www.netlogicmicro.com/proxymaterials.htm>.

CORPORATE GOVERNANCE

Director Independence

Our board of directors has determined that directors Perham, Broyles, Krock, Godinho and Domenik are independent, as defined under Marketplace Rule 5605(a)(2) of the listing rules of the NASDAQ Stock Market (the "NASDAQ listing rules"). No director qualifies as independent unless our board of directors determines that the director has no direct or indirect material relationship with us. On an annual basis, each director and executive officer is obligated to complete a questionnaire that requires disclosure of any transactions with us in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest. We also independently review our relationship to any entity employing a director or on which the director serves as a member of the board of directors. Our board of directors has determined that all directors who served during 2009, other than Mr. Jankov, are independent in accordance with SEC and the NASDAQ listing rules. Our board of directors has concluded that there are no business relationships that are material or that would interfere with the exercise of independent judgment by any of these directors in their service on our board of directors or its committees. Our board of directors also considered share ownership of the directors and determined in the case of Mr. Godinho that his beneficial ownership of shares representing approximately 6.4% of the common stock does not result in his having a controlling block of shares or prevent him from acting independently.

Our board of directors also has determined that Mr. Perham is the lead independent director. Our board of directors has standing Audit, Compensation and Governance and Nominating Committees, each of which is comprised solely of independent directors in accordance with the NASDAQ listing rules.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics for Employees, Executive Officers and Directors that applies to all of our employees and directors. We have posted this Code of Business Conduct and Ethics on our website at www.netlogicmicro.com.

Stockholder Communications with the Board

Stockholders who desire to communicate with our board of directors, or to a specific director, may do so by delivering the communication addressed to either the board of directors or any director, c/o NetLogic Microsystems, Inc., 1875 Charleston Road, Mountain View, California 94043. These communications will be delivered to the board, or any individual director, as specified.

Annual Meeting Attendance

Our board of directors encourages each director to attend our annual meetings of stockholders, but attendance is not required. Directors Jankov, Perham and Godinho attended our 2009 annual meeting of stockholders.

Board of Directors

Members of the Board of Directors

The names of each of our current directors and certain information about them are set forth below:

Name	Age	Position
Leonard Perham ⁽¹⁾⁽²⁾	66	Director, Chairman of the Board
Douglas Broyles ⁽³⁾	68	Director
Stephen Domenik ⁽¹⁾⁽²⁾⁽³⁾	58	Director
Norman Godinho	69	Director
Ronald Jankov	51	Director, Chief Executive Officer and President
Alan Krock ⁽¹⁾	49	Director

- (1) Member of the audit committee.
- (2) Member of the compensation committee.
- (3) Member of the governance and nominating committee.

Board Diversity and Board Member Qualifications

Our Governance and Nominating Committee is responsible for identifying prospective board candidates, recommending nominees for election to our board of directors, developing and recommending board member selection criteria, considering committee member qualifications, recommending corporate governance principles to our board of directors, and providing oversight in the evaluation of our board of directors and each committee. The responsibilities of our Governance and Nominating Committee are described in the Governance and Nominating Committee Charter approved by our board of directors, a current copy of which is available at www.netlogicmicro.com.

When there is a need to identify or evaluate a prospective nominee, our Governance and Nominating Committee undertakes a careful review process which may involve, among other things, candidate interviews, inquiries of the person or persons recommending the candidate, engagement of an outside firm to gather additional information and discussions with management and incumbent directors. In evaluating candidates, including current directors eligible for re-election, our Governance and Nominating Committee considers various factors, including the size and composition of our board of directors and our committees, the needs of our board of directors and committees, the candidate's expertise and experience, the candidate's independence and potential conflicts of interest, the candidate's character and integrity, and the candidate's existing commitments. Upon completion of its review and evaluation, our Governance and Nominating Committee makes its recommendations to our board of directors regarding the candidate(s). All nominations are approved by the entire board of directors, including all of the independent directors. After considering our Governance and Nominating Committee's recommendations, our board of directors determines and approves which candidate(s) shall be nominated for election to our board of directors, subject to stockholder approval.

Our board prefers a variety of professional backgrounds and experiences among its members, and does not follow any prescribed process or formula; rather, it uses its judgment to review the professional background and experiences of each candidate and board member such that the board, as a whole, will be able to successfully perform its duties to the highest standards. In particular, the board has sought to include members that have experience in establishing and growing integrated circuit companies, leading integrated circuit companies in chief executive officer, chief financial officer or other senior management positions, working with the investment community, serving on the board of directors of other companies, both public and private and have experience in the development and oversight of high technology companies, and familiarity with the capital markets environment for such companies.

In determining that each of the members of the board is qualified to be a director, the board has relied on the attributes listed below and on the direct personal knowledge of each of the members' prior service on the board. There are no family relationships among any of our directors or executive officers.

Leonard Perham has served as a member of or chairman of our board of directors since March 2000. Mr. Perham has a lengthy history of managing high-technology integrated circuit companies as a chief executive officer and board member. Mr. Perham has been the President and Chief Executive Officer of Mosys, Inc. (a provider of intellectual property cores and integrated circuit products) since November, 2007, and from April 1991 to January 2000, Mr. Perham was the Chief Executive Officer of Integrated Device Technology, Inc.

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Douglas Broyles has served as a member of our board of directors since December 1999. Mr. Broyles has been a General Partner with Huntington Ventures (a private investment firm) since September 2000. For the past 25 years as an investor and board member, Mr. Broyles has gained first-hand experience in helping oversee the

strategic direction and growth strategies of several Silicon Valley technology companies and has current experience in the areas of wireless communications and leading edge semiconductor fabrication technologies. From 1982 to 1986, Mr. Broyles was a member of the board of directors of Sun Microsystems, Inc.

Stephen Domenik has served as a member of our board of directors since January 2001. Since 1995, Mr. Domenik has been with Sevin Rosen Funds, a venture capital firm, where he is a General Partner and has developed considerable relevant experience in investments in and the strategic development of high-technology companies. During his tenure at Sevin Rosen Funds he has led numerous investments in private companies. Mr. Domenik also sits on the boards of directors of various private companies.

Norman Godinho is one of our founders and has served as a member of our board of directors since our inception. Mr. Godinho has gained first hand experience through a long career in managing research and development and training engineers at high technology companies through his own engineering career. Mr. Godinho co-founded Integrated Device Technology, Inc. in August 1980 and Paradigm Technology Limited in 1987, where he also served as a director and Vice President. Mr. Godinho also gained significant management experience as our Chief Executive Officer from December 1997 to April 2000.

Ronald Jankov has served as our President, Chief Executive Officer and as a member of our board of directors since April 2000. As Vice President of Sales and then Vice President and General Manager for the Multimedia Division of NeoMagic Corporation from September 1995 to September 1999, and as Vice President of Cyrix Corporation prior to joining NeoMagic, Mr. Jankov gained first hand experience in the management of engineering, sales and product development of growing integrated circuit providers.

Alan Krock has served as a member of our board of directors since August 2005. As the Chief Financial Officer of Beceem Communications, Inc. (a provider of integrated circuit products) since January 2010, Vice President and Chief Financial Officer of PMC-Sierra, Inc. (a provider of integrated circuit products) from November 2002 until March 2007, Vice President of Corporate Affairs for PMC-Sierra, Inc. from March 2007 until March 2008, and Vice President and Chief Financial Officer of Integrated Device Technology, Inc. from January 1998 until November 2002. Mr. Krock has gained extensive experience in financial and audit control related matters.

Board Classification

Our board of directors is divided into three classes, as follows:

Class I, which consists currently of Norman Godinho and Ronald Jankov whose terms will expire at our annual meeting of stockholders to be held in 2011;

Class II, which consists currently of Douglas Broyles and Stephen Domenik whose terms will expire at our annual meeting of stockholders to be held in 2012; and

Class III, which consists currently of Leonard Perham and Alan Krock whose terms will expire at our annual meeting of stockholders to be held in 2010.

Upon expiration of the term of a class of directors, directors for that class will be elected for three-year terms at the annual meeting of stockholders in the year in which such term expires. Each director's term is subject to the election and qualification of his successor, or his earlier

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death, resignation or removal. The authorized number of directors may be changed by resolution of our board of directors or a majority vote of the stockholders. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. Because no more than two directors may be elected at each annual meeting, this classification of our board of directors may have the effect of delaying or preventing changes in control or management.

Risk Oversight by the Board

It is the responsibility of the board of directors to oversee management's efforts to assess and manage the various risks that we face. The board of directors as a whole oversees strategic and operational risks through its interaction with senior management regarding our major research development plans, manufacturing initiatives, sales and marketing strategies, merger and acquisition activities, financing and investment initiatives and financial auditing and controls. This interaction occurs at formal board of directors meetings, committee meetings and through other periodic written and oral communications.

Additionally, the board of directors has allocated some of its risk oversight activities to its committees. For example, the Compensation Committee oversees the risks associated with compensation for our named executive officers and directors, including whether any of our compensation policies has the potential to encourage excessive risk-taking. The Audit Committee oversees compliance with our code of conduct and ethics, our financial reporting process and our systems of internal controls and reviews with management our major financial risk exposures and the steps taken to control such exposures. The Governance and Nominating Committee monitors the effectiveness of our corporate governance guidelines.

Board Leadership Structure

We have chosen to separate the positions of our chief executive officer and board chairman as we believe that this separation provides the opportunity for our chairman to better represent the independent directors in the board's oversight of management.

As chairman of the board of directors, Mr. Perham is the lead independent director. Mr. Perham also serves on our Audit Committee and Compensation Committee and allocates a considerable amount of additional time outside of board and committee meetings to spend with our chief executive officer and chief financial officer to facilitate the board's oversight of management and ensure that the independent members of the board are involved in setting the strategic direction of the company.

Board Meetings and Committees

Board of Directors

Mr. Perham serves as chairman of our board of directors. Our board of directors held eight meetings in 2009. In addition, our board acted at times by unanimous written consent pursuant to Delaware law. None of the directors attended fewer than 75 percent of the total number of meetings held during the year or the total number of meetings held by all committees of the board of directors on which he served during the year.

Audit Committee

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Directors Krock, Perham and Domenik are the current members of our Audit Committee. All are independent under the NASDAQ listing rules. Mr. Krock serves as the chairman of the committee. The Audit Committee held nine meetings in 2009. Our board of directors has determined that Mr. Krock is the audit committee financial expert, as defined under Item 407(d)(5) of Regulation S-K under the Securities Act of 1933 and the Securities Exchange Act of 1934 and to satisfy the requirements of Rule 5605(c)(2) of the NASDAQ listing rules, but that status does not impose on him duties, liabilities or obligations that are greater than the duties, liabilities or obligations otherwise imposed on him as a member of our audit committee and our board of directors. Our Audit Committee oversees, reviews and evaluates our financial statements, accounting and financial reporting processes, internal control functions and the audits of our financial statements, including the appointment, compensation, retention and oversight of our independent auditor. Our Audit Committee also is charged with reviewing reports or complaints with respect to the accounting, auditing and/or internal controls of the Company, including possible violations under our whistleblower policy. The responsibilities of our audit committee are described in the Audit Committee Charter adopted by our board of directors, a current copy of which is available at www.netlogicmicro.com.

Compensation Committee

Directors Perham and Domenik are the current members of our Compensation Committee. Mr. Domenik serves as the chairman. The Compensation Committee held six meetings in 2009. In addition, the Compensation Committee acted at times by unanimous written consent pursuant to Delaware law.

Our Compensation Committee does not have a charter; rather, its duties and obligations have been specified by our board of directors. The Compensation Committee reviews and makes recommendations to our board of directors concerning the compensation and benefits of our executive officers (including our chief executive officer) and directors, develops performance objectives for our officers and evaluates their performance in light of these objectives, administers our stock option and employee benefits plans, reviews general policies relating to compensation and benefits, and produces an annual report on executive compensation for inclusion in our annual proxy statement.

Governance and Nominating Committee

Directors Broyles and Domenik are the current members of our Governance and Nominating Committee. Mr. Broyles serves as the chairman of the Committee. Our Governance and Nominating Committee held two meetings in 2009. The duties of our Governance and Nominating Committee are to identify prospective board candidates, recommend nominees for election to our board of directors, develop and recommend board member selection criteria, consider committee member qualification, recommend corporate governance principles to our board of directors, and provide oversight in the evaluation of our board of directors and each committee. The responsibilities of our Governance and Nominating Committee are described in the Governance and Nominating Committee Charter approved by our board of directors, a current copy of which is available on our website at www.netlogicmicro.com.

This year, our Governance and Nominating Committee recommended that our current Class III directors Perham and Krock be re-elected at the Annual Meeting, and our entire board of directors approved this recommendation. Both have served ably on the board of directors since their respective initial election dates and have valued expertise that benefits management and all of our other directors. Mr. Perham has substantial experience building and managing businesses like ours. Mr. Krock is our Audit Committee chairman and financial expert and has been the primary interface between the Audit Committee and our senior financial management. We consider their continued service on the board of directors to be in our and our stockholders' best interests.

Our Governance and Nominating Committee will consider candidates for nomination as director who are recommended by our stockholders and will not evaluate such candidates differently than other nominations for director. To recommend a prospective candidate for consideration by our Governance and Nominating Committee, stockholders must hold at least \$2,000 in market value or one percent of our outstanding voting securities continuously for at least one year prior to the date of the submission of the recommendation. Recommendations received after the date that is 120 days prior to the one year anniversary of the mailing of the previous year's proxy statement, will likely not be considered timely for consideration at that year's annual meeting. The submission deadline for next year's annual meeting is set forth under "Stockholder Proposals for 2011 Annual Meeting" elsewhere in this Proxy Statement. Stockholders may suggest qualified candidates for director by giving timely notice in writing to the Committee at the following address: NetLogic Microsystems, Inc., 1875 Charleston Road, Mountain View, California 94043, Attention: Secretary, and must include the candidate's name, home and business contact information, detailed biographical data and qualifications, an explanation of the reasons why the stockholder believes this candidate is qualified for service on our board of directors and certain other information as required by our bylaws. The stockholder must also provide such other information about the candidate that would be required by the SEC rules to be included in a proxy statement. In addition, the stockholder must include the consent of the candidate and describe any arrangements or undertakings between the stockholder and the candidate regarding the nomination. The Secretary will then forward this information to our Governance and Nominating Committee.

To date, no stockholder or group of stockholders owning more than 5% of our common stock has submitted a nomination for director.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee serves on or has served on the board of directors or compensation committee of another entity that has one or more members serving on our board of directors or Compensation Committee. None of our executive officers served on the board of directors or compensation committee of another entity during the past fiscal year.

COMPENSATION OF NON-EMPLOYEE DIRECTORS
Director Compensation Table

The following Director Compensation Table sets forth summary information concerning the compensation paid to our non-employee directors in 2009 for their services as directors.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) ⁽¹⁾	All Other Compensation (\$)	Total (\$)
Leonard Perham	32,500	204,537		237,037
Stephen Domenik	31,000	204,537		235,537
Norman Godinho	15,000	204,537		219,537
Douglas Broyles	22,500	204,537	14,402 ⁽²⁾	241,439
Alan Krock	30,000	204,537	20,546 ⁽²⁾	255,083
Total	131,000	1,022,685	34,948	1,188,633

⁽¹⁾ Reflects the aggregate grant date fair value of option awards granted in 2009 computed in accordance with the Financial Accounting Standards Board Accounting Standard Codification Topic 718, Compensation - Stock Compensation (FASB ASC Topic 718). See Note 6 of the consolidated financial statements under Item 8 Financial Statements and Supplementary Data of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009 regarding the assumptions underlying the valuation of equity grants. Each director was granted an option to purchase 20,000 shares on July 22, 2009 at an exercise price of \$19.67 per share. The options vest as to 1/12th of the shares subject to the option at the end of each calendar month following the date of grant.

⁽²⁾ Reflects the aggregate incremental cost of medical, dental and vision insurance premiums paid by us on behalf of the individual director.

We reimburse our non-employee directors for all reasonable out-of-pocket expenses incurred in the performance of their duties as directors. Employee directors are not compensated for service on the board of directors in addition to their compensation as employees. Consequently, during 2009, Mr. Jankov did not receive compensation for his role as a director.

Cash Compensation

For fiscal year 2009, the Compensation Committee retained Radford Surveys and Consulting, a business unit of AON Consulting, Inc. (Radford), as an independent, third-party consulting firm to review non-employee director compensation. Based on the results of the review by Radford, and the Committee's goal of retaining and motivating highly qualified non-employee directors, the Compensation Committee recommended to the board of directors that the annual equity and cash compensation granted to each non-employee director remain unchanged for fiscal 2009. The board of directors accepted the recommendation of the Compensation Committee, and on July 22, 2009 approved cash compensation to our non-employee directors as follows:

\$15,000 to each of our non-employee directors for service on our board of directors;

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An additional \$15,000 to Mr. Krock for service as the chairman of the Audit Committee, and \$5,000 to each of Mr. Perham and Mr. Domenik for services as members of our Audit Committee;

An additional \$10,000 to Mr. Domenik for service as the chairman of the Compensation Committee, and \$2,500 to Mr. Perham for service as a member of our Compensation Committee;

An additional \$7,500 to Mr. Broyles for service as the chairman of our Governance and Nominating Committee, and \$1,000 to Mr. Domenik for service as a member of our Governance and Nominating Committee; and

An additional \$10,000 to Mr. Perham for service as the lead independent director.

Equity Compensation

In connection with their board service, non-employee directors are eligible to receive, and have received, stock options under our Incentive Plan. As permitted under the terms of the Incentive Plan, we have adopted a policy of awarding each new non-employee director an initial option grant to purchase 80,000 shares of our common stock upon first becoming a member of our board of directors. The initial option vests and becomes exercisable over three years from the date of grant, with the first 25% of the shares subject to the initial option vested on the date of grant, and the remainder vesting monthly thereafter.

In addition, under the terms of the Incentive Plan we have been automatically granting a non-statutory option to purchase 20,000 shares of our common stock, at the first regularly scheduled meeting of our board of directors following each annual meeting of stockholders, to each non-employee director who has served on our board or directors for at least six months. These options vest on a monthly basis and become exercisable in full on the first anniversary of the date of grant. The exercise price of stock options granted to directors is equal to the fair market value of a share of our common stock on the date of grant, which under the 2004 Plan is the closing price per share of our common stock on the principal public market on which it is listed for trading, which was the NASDAQ Global Select Market, or Nasdaq GS, in 2009. The accounting value of stock option grants to directors is calculated using the same methodology that we use to determine the accounting charge associated with similar equity-based awards for the fiscal period immediately preceding the grant date. We measure the fair value of option awards using the Black-Scholes option pricing model which requires a number of complex and subjective assumptions including our stock price volatility, option exercise patterns (expected life of options), future forfeiture rates and related tax effects.

During 2009, all option grants to directors were made to continuing directors, each of whom received an automatic grant of options to purchase 20,000 shares of our common stock. The grants were made on July 22, 2009 at an exercise price of \$19.67 per share, which was the closing price of our common stock on the Nasdaq GS on the same date.

Other Compensation

Beginning in April 2008, the members of our board of directors became eligible to participate in our health care insurance plans, including medical, dental and vision coverage, to the same extent that our non-director employees are eligible to participate in such plans. In 2009, non-employee directors Broyles and Krock enrolled in our medical, dental and vision plans, and we paid the medical insurance premiums on their behalf.

EXECUTIVE OFFICERS

The following table provides the names, ages and offices of each of our current executive officers:

Title	Age	Position
Ronald Jankov	51	Director, Chief Executive Officer and President
Behrooz Abdi	48	Executive Vice President and General Manager
Michael Tate	44	Vice President and Chief Financial Officer
Marcia Zander	46	Senior Vice President of Worldwide Sales
Varadarajan Srinivasan	58	Vice President of Product Development and Chief Technical Officer
Dimitrios Dimitrelis	52	Vice President of Engineering
Mozfar Maghsoudnia	43	Vice President of Worldwide Manufacturing
Ibrahim Korgav	61	Senior Vice President of Worldwide Business Operations
Chris O Reilly	36	Vice President of Marketing
Roland Cortes	44	Vice President, General Counsel and Secretary

Ronald Jankov has served as our President, Chief Executive Officer and as a member of our board of directors since April 2000.

Behrooz Abdi has served as our Executive Vice President and General Manager in charge of our MPS/CPS business since November 2009. From November 2007 to October 2009, Mr. Abdi was President and Chief Executive Officer of RMI Corporation, a provider of multi-threaded, multi-core processors. From March 2004 to November 2007, Mr. Abdi was Senior Vice President and General Manager of Qualcomm CDMA Technologies in charge of the day-to-day operations of semiconductor products at Qualcomm, Inc., a provider of integrated circuit products. Prior to Qualcomm, Mr. Abdi held leadership and engineering positions at Motorola in its Semiconductor Products Sector, now Freescale Semiconductor, Inc. His last role at Motorola was Vice President and General Manager for the Radio Products Division from July 1985 to December 2003.

Michael Tate has served as our Vice President of Finance and Chief Financial Officer since July 2007. Prior to joining us, Mr. Tate was interim chief financial officer, vice president, corporate controller, and treasurer at Marvell Technology Group Ltd., a semiconductor integrated circuit company. He joined Marvell in January 2001 as part of Marvell's acquisition of Galileo Technology Ltd.

Marcia Zander has served as our Senior Vice President of Worldwide Sales since January 2006 and Vice President of Sales since July 1999.

Varadarajan Srinivasan has served as our Vice President of Product Development since March 1996, as our Chief Technical Officer since August 2000.

Dimitrios Dimitrelis has served as our Vice President of Engineering since July 2002. From July 1999 to March 2002, Mr. Dimitrelis was Director of Engineering for Vitesse Semiconductor Corp., a communications integrated circuit company, where he was primarily responsible for the development of a 10G network processor.

Mozfar Maghsoudnia has served as our Vice President of Worldwide Manufacturing since January 2007, as Vice President of Manufacturing since August 2006, and Director of Technology since June 2003. From June 1988 to June 2003, Mr. Maghsoudnia was employed by Analog

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Devices, Inc., where he was responsible for wafer fabrication and technology in his last assignment.

Ibrahim Korgav has served as our Senior Vice President of Worldwide Business Operations since January 2007 and as our Senior Vice President of Manufacturing and Business Operations from March 2002 to January 2007.

Chris O Reilly has served as our Vice President of Marketing since August 2007. Prior to August 2007, Mr. O Reilly served as our senior director of marketing, director of sales for the Asia Pacific region and senior marketing manager since 1999.

Roland Cortes has served as our Vice President, General Counsel and Secretary since April 2007. Prior to April 2007, Mr. Cortes served as our Secretary since May 2004, as our Senior Director of Legal Affairs and IP Management since July 2002, and as our Director of Legal Affairs and IP Management since April 1999.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Committee

Our Compensation Committee is composed of directors Domenik and Perham, who are independent, non-employee directors. The Compensation Committee reviews and makes recommendations to our board of directors concerning the compensation and benefits of our executive officers (including our chief executive officer) and directors, reviews and approves performance objectives for our officers and evaluates their performance in light of these objectives, administers our stock option and employee benefits plans, reviews and approves our general policies relating to compensation and benefits, and reviews and approves this Compensation Discussion and Analysis report for inclusion in this Proxy Statement.

Compensation Philosophy and Objectives

Our compensation philosophy and the objective of our compensation program is to align the interests of our stockholders and management by integrating executive compensation with our annual and long-term corporate strategic and financial objectives. We believe that the overall compensation for our executive officers should be fair, reasonable and competitive to attract, retain, motivate and reward well-qualified executives who contribute to our long-term success. Accordingly, our compensation program is designed to reward the performance of each executive officer and recognize the officer's contribution to our overall performance in a particular fiscal year, as well as to our long-term strategic and financial objectives.

Consistent with our compensation philosophy and objectives, we consider many factors in determining appropriate compensation for our executive officers, including:

the experience and career potential of each officer;

the competitive market for both short-term and long-term compensation;

the prior compensation earned and awarded to each officer;

our success in achieving its strategic and financial goals; and

our need to obtain, retain and motivate highly qualified individuals.

To guide in the implementation of our compensation philosophy, our compensation program is designed to:

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include equity grants that typically vest over multiple years to align long-term employee interests with the interests of our stockholders;

provide a meaningful link between our goals and execution by the executive management team to support achievement of such goals; and

provide a competitive blend of short-term and long-term compensation to provide meaningful incentives for individual achievement.

Our total compensation packages may include base salary, annual cash bonuses and commissions, all paid in cash, as well as long-term compensation in the form of equity compensation including stock options, restricted stock and restricted stock units. Additionally, our compensation packages include a 401(k) plan, medical and other benefits, and severance and change-in-control and other post-termination benefits.

Competitive Market Data

Determining the competitive landscape is an essential step in implementing our compensation objectives. We and the Compensation Committee annually review competitive market information for executive officers,

including short-term incentives, such as base salaries, cash bonuses and commissions, and long-term incentives, in the form of equity compensation, including stock options, performance shares, restricted stock and restricted stock awards.

	-
	-
	-
	-
	(21,652)
)	
Gain on extinguishment of debt	-
	-
	-
	-
	255,500
Total Other Income (Expenses)	-
	-
	-
	-
	224,554
NET LOSS	
\$	(486,174)
)	
\$	(219,851)
)	
\$	(603,270)
)	
\$	(351,532)
)	
\$	(7,927,989)
)	
BASIC LOSS PER COMMON SHARE	
\$	(0.007)
)	
\$	

)	(0.005)
\$	
)	(0.008)
\$	
)	(0.009)
\$	
)	(0.75)
)	
WEIGHTED AVERAGE NUMBER OF	
SHARES OUTSTANDING	
	74,216,852
	41,249,763
	74,582,002
	41,000,128
	10,594,885

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

Camelot Entertainment Group, Inc.
Statement of Cash Flows
(Unaudited)

	For the three months		For the six months		Cummulative from October 12, 1999 (Inception) to June 30, 2005
	ended June 30,		ended June 30,		
	2005	2004	2005	2004	
OPERATING ACTIVITIES					
Net (loss) income for the period	\$ (486,174)	\$ (219,851)	\$ (603,270)	\$ (351,532)	\$ (7,927,989)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:					
Value of options expensed					351,000
Gain on extinguishment of debt					(255,500)
Depreciation					3,997
Amortization of deferred compensation					1,538,927
Common stock issued for debt					40,000
Common stock issued for services	384,843	530,500	384,843	533,500	1,672,843
Common stock issued for expense reimbursement	55,462	-	55,462		77,513
Common stock issued for technology					19,167
Impairment of investments in other companies					710,868
Impairment of assets					2,628,360
Prepaid services expensed	385		-		529,038
Expenses paid through notes payable proceeds					66,489
Loss on disposal of property and equipment					5,854
Change in assets and liabilities:					
(Increase) decrease in other current assets			(9,615)		(9,615)
Increase (decrease) in accounts payable & accrued liabilities	(20,351)	(8)	(27,825)	(7)	168,173
Increase (decrease) in due to officers	(87,500)	(350,000)		(262,500)	-
Net Cash provided (used) by operating activities	\$ (153,335)	\$ (39,359)	\$ (200,405)	\$ (80,539)	\$ (380,875)
Cash flows from investing activities:					
Purchase of fixed assets					(6,689)
Cash provided (used) from investing activities	-	-	-	-	(6,689)
Cash flows from financing activities:					
Contributed capital					25,500
Advances from affiliate/shareholder loans for cash flow	(46,546)				127,487
Advances from affiliate/shareholder loans for trade show	200,013		200,013		200,013
Proceeds from issuance of common stock		47,670		88,850	30,835
Increase (decrease) in notes payable					4,477
Cash provided (used) in financing activities	153,467	47,670	200,013	88,850	388,312
Increase in cash	132	8,311	(392)	8,311	748
Cash at beginning of period	616	-	1,140	-	-

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Cash at end of period	\$	748	\$	8,311	\$	748	\$	8,311	\$	748
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The accompanying notes are an integral part of these financial statements.

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Camelot Entertainment Group, Inc.

Statement of Cash Flows

(Unaudited)

(continued)

	For the three months ended June 30,		For the six months ended June 30,		Cumulative from 12-Oct-99 (Inception) to 30-Jun-05
	2005	2004	2005	2004	
SUPPLEMENTAL CASH FLOW INFORMATION:					
Interest paid	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Issuance of common stock for property and equipment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,153,162
Issuance of common stock for licensed technology	\$ 0	\$ 0	\$ 0	\$ 0	\$ 938,000
Purchase of treasury stock in exchange for property	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,400
Issuance of common stock for debt and technology	\$ 0	\$ 0	\$ 0	\$ 0	\$ 40,000
Purchase of licensed technology for debt to seller	\$ 0	\$ 0	\$ 0	\$ 0	\$ 250,000
Issuance of common stock for prepaid and other assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,726
Prepayment of services for common stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,046,000
Investments in other companies	\$ 0	\$ 0	\$ 0	\$ 0	\$ 710,000
Conversion of debt to common stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 225,500
Forgiveness of debt by stockholder	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,489
Decrease (Increase) of subscription receivable for advances	\$ 0	\$ (91,466)	\$ 0	\$ 47,670	\$ 0

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

Camelot Entertainment Group, Inc.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In Capital	(Deficit)	Subscription Receivable	Deferred Compensation	Total
	Shares	Amount	Shares	Amount		Accumulated During Development Stage			
Balance, October 12, 1999	-	-	-	-	-	-	-	-	-
Issuance of shares for cash at \$.02 per share	1,000,000	1,000	-	-	19,000	-	-	-	20,000
Issuance of shares for services at \$.02 per share	2,600,000	2,600	-	-	49,400	-	-	-	52,000
Issuance of shares for expense reimbursement at \$.02 per share	834,569	835	-	-	15,856	-	-	-	16,691
Net (loss)	-	-	-	-	-	-66,796	-	-	-66,796
Balance, December 31, 1999	4,434,569	4,435	-	-	84,256	-66,796	-	-	21,895
Issuance of shares for conversion of notes payable at \$.02 per share	1,000,000	1,000	-	-	19,000	-	-	-	20,000
Issuance of shares for services at \$.02 per share	750,000	750	-	-	14,250	-	-	-	15,000
Issuance of shares for cash at \$1.00 per share	10,835	11	-	-	10,824	-	-	-	10,835
Issuance of shares for conversion of notes payable at \$1.00 per share	15,000	15	-	-	14,985	-	-	-	15,000
Issuance of shares for expense reimbursement at \$1.00 per share	4,630	4	-	-	4,626	-	-	-	4,630
Issuance of shares for services at \$1.00 per share	107,000	107	-	-	106,893	-	-	-	107,000
Investment in other companies by issuance of shares at \$1.00 per share	710,000	710	-	-	709,290	-	-	-	710,000
Issuance of shares for prepaid services at \$1.00 per share	195,000	195	-	-	194,805	-	-	-	195,000
Issuance of shares for deferred compensation to officers, directors and controlling parties at \$1.00 per share	89,000	89	-	-	88,911	-	-	-	89,000
	-	-	-	-	-	-	-	-89,000	-89,000

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Deferred compensation expensed								21,920	21,920
Net (loss)	-	-	-	-	-	-954,329	-	-	-954,329
Balance, December 31, 2000	7,316,034	7,316	-	-	1,247,840	-1,021,125	-	-67,080	166,951
Issuance of shares for expense reimbursement	1,248	1	-	-	5,616	-	-	-	5,617
Issuance of shares for prepaid services	337,208	337	-	-	400,407	-	-	-	400,744
Property & equipment lease by issuance of shares	1,000,000	1,000	-	-	1,149,000	-	-	-	1,150,000
Licensed technology by issuance of shares	2,270,000	2,270	-	-	35,730	-	-	-	38,000
Issuance of shares for deferred compensation to officers, directors and related parties	1,122,944	1,123	-	-	1,297,229	-	-	-	1,298,352
Issuance of shares for developed technology expensed	16,667	17	-	-	19,150	-	-	-	19,167
Forgiveness of debt by shareholder	-	-	-	-	31,489	-	-	-1,298,352	-1,298,352
Related party services paid for by shareholder	-	-	-	-	25,500	-	-	-	25,500
Deferred compensation expensed	-	-	-	-	-	-	-	315,423	315,423
Net (loss)	-	-	-	-	-	-1,875,683	-	-	-1,875,683
Balance at December 31, 2001	12,064,101	12,064	-	-	4,211,961	-2,896,808	-	-1,050,009	277,208
Issuance of shares for deferred compensation to officers, directors and related parties	-	-	-	-	-	-	-	-	-
Issuance of shares for services	1,207,500	1,208	-	-	150,367	-	-	-151,575	-
Licensed technology by issuance of shares	3,000,000	3,000	-	-	897,000	-	-	-	900,000
Deferred compensation expensed	-	-	-	-	-	-	-	-	-
Purchase of treasury stock in exchange for licensed technology	-	-	-1,500,000	-1,500	-	-	-	-	-1,500
Purchase of treasury stock in exchange for capital lease	-	-	-900,000	-900	900	-	-	1,201,584	1,201,584
Net (loss)	-	-	-	-	-	-3,000,982	-	-	-3,000,982
Balance at December 31, 2002	16,271,601	16,272	-2,400,000	-2,400	5,260,228	-5,897,790	-	-	-623,690
Issuance of shares for debt	20,000,000	20,000	-	-	204,296	-	-	-	224,296

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Retirement of treasury shares	-2,400,000	-2,400	2,400,000	2,400	-	-	-	-
Cancellation of shares previously issued	-15,168	-15	-	-	15	-	-	-
Net (loss)	-	-	-	-	-	-161,652	-	-161,652
Balance at December 31, 2003	33,856,433	33,857	-	-	5,464,539	-6,059,442	-	-561,046
Shares issued for services	100,000	100	-	-	2,900	-	-	3,000
Shares issued for financing	6,791,287	6,791	-	-	196,948	-	-	203,739
Subscriptions receivable for financing agreement	-	-	-	-	-	-	-116,069	-116,069
Net (loss) for the three months ended March 31, 2004	-	-	-	-	-	-131,681	-	-131,681
Balance at March 31, 2004	40,747,720	40,748	-	-	5,664,387	(6,191,123.00)	(116,069)	(602,057)
Shares issued for payables	15,548,051	15,548	-	-	421,952	-	-	437,500
Share issued for services	850,000	850	-	-	92,150	-	-	93,000

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

Camelot Entertainment Group, Inc.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(continued)

	Common Stock		Treasury Stock		Additional	(Deficit)	Subscription	Deferred	Total	
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated During Development Stage	Receivable	Compensation		
Share issued for financing	-	4,637,867	4,638	-	-	134,498	-	-	-	139,136
Subscriptions received for financing agreement	-	-	-	-	-	-	-	(91,466)	-	(91,466)
Net (loss) for the three months ended June 30, 2004	-	-	-	-	-	-	(219,851)	-	-	(219,851)
Balance at June 30, 2004	-	61,783,638	61,784	-	-	6,312,987	(6,410,974)	(207,535)	-	(243,738)
Net (loss) for the three Months ended Sept 30, 2004	-	-	-	-	-	-	(119,806)	-	-	(119,806)
Balance at September 30, 2004	-	61,783,638	61,784	-	-	6,312,987	(6,530,780)	(207,535)	-	(363,544)
Balance at December 31, 2004	-	74,951,209	74,952	-	-	7,408,347	(7,324,719)	(258,072)	-	(99,492)
Net (loss) for the three Months ended Mar 31, 2005	-	-	-	-	-	-	(117,096)	-	-	(117,096)
Balance at March 31, 2005	74,951,209	74,952	\$ -	\$ -	7,408,347	(7,441,815)	(258,072)	\$ -	(216,588)	
Totals	74,951,209	\$74,952	-	0	7,408,347	(7,441,815)	(\$258,072)		(216,588)	
Shares issued for consulting services	4,000,000	4,000	-	0	191,000	-	-	-	-	-
Shares issued for officers salaries	2,276,033	2,276	-	0	187,568	-	-	-	-	-
Shares issued to Eagle for reimbursed Net Loss	1,848,722	1,849	-	0	53,613	-	-	-	-	-
	8,124,755	8,125	-	-	432,180	(486,174)	-	-	-	-

Subtotals for 2nd
quarter

Balance at June 30, 2005	83,075,965	83,077	-	-	7,840,527	(7,927,989)	(\$258,072)	(262,457)
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The accompanying notes are an integral part of these financial statements.

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CAMELOT ENTERTAINMENT GROUP, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

1. ORGANIZATION AND BASIS OF PRESENTATION

Camelot Entertainment Group, Inc. (the *Company*), a Delaware corporation, which develops, produces, markets and distributes motion pictures, was originally incorporated with the intention of providing services and resources to entrepreneurs looking to launch novel products and ventures worldwide in exchange for an interest in the startup ventures.

The Company's activities since inception have consisted of raising capital, recruiting a management team and entering into ventures and alliances with Affiliates. The Company has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology. As of December 31, 2002, the Company had written-off all of its investments due to impairments in the carrying value of the assets. Since inception, impairment of investments in other companies and of long-lived assets accounts for approximately 51% of the Company's net losses.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had minimal revenues, has experienced material operating losses and has a stockholders' deficit. These conditions, the loss of financial support from Affiliates, and the failure to secure a successful source of additional financial resources raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring the Company's debt and seeking additional financial resources from existing investors or others in implementing its new business model. However, instability in the stock price may make it difficult to find parties willing to accept the Company's restricted shares of common stock in exchange for cash and or services required to execute its Plan of Operation. There is no assurance that such resources would be made available to the Company, or that they would be on financially viable terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all investment instruments purchased with maturities of three months or less to be cash equivalents.

Basis Of Presentation

The unaudited financial statements included herein were prepared from the records of the Company in accordance with Generally Accepted Accounting Principles and in accordance with current securities regulations. These unaudited financial statements have been reviewed by our independent auditors. These financial statements reflect all adjustments, which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2004. The current interim period reported herein should be read in conjunction with the Company's Form 10-KSB subject to independent audit at the end of the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Income taxes

The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

CAMELOT ENTERTAINMENT GROUP, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

Financial Instruments

Financial instruments consist primarily of obligations under accounts payable and accrued expenses, notes payable and capital lease obligations. The carrying amounts of accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The carrying value of notes payable and capitalized lease obligations approximate fair value because they contain market value interest rates and have specified repayment terms. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Impairment of Long-Lived Assets

Impairment of long-lived assets is assessed by the Company whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

Loss Per Common Share

The Company has adopted SFAS No. 128, *Earnings per Share*, which supercedes APB No. 15. Basic EPS differs from primary EPS calculation in that basic EPS does not include any potentially dilutive securities. Diluted EPS must be disclosed regardless of the dilutive impact to basic EPS. There were no potentially dilutive securities outstanding at June 30, 2005.

Revenue Recognition

Revenue consists of professional services. Revenues for services are recognized when the services are rendered. The amounts of such revenues are recorded based on the value of compensation received for the services. In the Company's current operations, compensation to the Company has consisted of stock in start up companies to whom the services were rendered.

Stock Based Compensation

Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148)*. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent disclosures in annual and interim financial statements with regard to the method of accounting for stock-based employee compensation and the impact of the method used on reported results. The Company has elected to adopt the recognition provisions of SFAS 148 for stock-based compensation recorded for fiscal years beginning after December 15, 2002. The interim disclosure requirements of SFAS 148 are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

3. GOING CONCERN UNCERTAINTIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations, which raise substantial doubt about its ability to continue as a going concern. The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing. In view of these matters, the Company has undergone a series of negotiations to obtain additional equity financing to enable it to achieve its strategic objectives. The Company has an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. While Eagle has advanced the Company \$208,928 during the second quarter of 2005, it appears unlikely that such funding will be enough to implement the Company's Plan of Operation during the remaining six months of 2005 and beyond. As a result, the Company must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

4. COMMITMENTS AND CONTINGENCIES

The Company is delinquent on obligations to various vendors. Accounts payable and accrued expenses balances over 90 days past due as of June 30, 2005 was \$72,807. The Company believes it has identified and accrued for all valid claims from creditors, consultants, stock option adjustments and vendors. Although there have been no specific disputes over these matters and related amounts, these third parties may assert

additional claims as the Company attempts to settle all past due obligations.

The Company also has a non-dilution commitment with an Affiliate to issue 20% of all newly issued common shares to the Affiliate in exchange for funding cash flow deficits over the period specified in the agreement. The Company has issued 1,848,722 common shares to the Affiliate during the second quarter of 2005 under the agreement.

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CAMELOT ENTERTAINMENT GROUP, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

5. ADVANCES FROM AFFILIATE

During the second quarter of 2005, the Company had not issued common shares to Affiliate for cash advances of \$200,013 which were not covered under an agreement in which the Affiliate must fund the Company's cash flow deficits over the period specified in the agreement. These advances were for additional expenses incurred by the Company in connection with the 2005 Cannes Film Festival and other related expenses.

6. DUE TO OFFICERS

As of June 30, 2005, the Company issued stock to companies owned by officers for services provided during the six-month period ending, June 30, 2005. As of June 30, 2005, no amounts were due to officers for salaries.

7. COMMON STOCK

The company issued 911,459 shares of restricted common stock at a market value of \$87,500 for the first quarter 2005 services by CEO, Robert P. Atwell and acting CFO, Jane Olmstead. A total of 1,364,575 restricted common shares at a market value of \$104,166 were issued for second quarter 2005 services by the CEO, current CFO George Jackson, and Jane Olmstead.

The company issued 4,000,000 shares of restricted common stock at a market value of \$195,000 for the second quarter for professional services rendered by consultants to the company. George Jackson, Craig Kitchens, Chris Davis and Kaye Dyal were each issued 1,000,000 shares accounting for the 4,000,000 shares issued.

The company issued 1,848,722 shares of restricted common stock at a market value of \$55,462 to Eagle Consulting Group, Inc. for expenses paid for operations of CMEG.

The company issued a total of 8,124,756 shares of restricted common stock during the second quarter of 2005 at a market value of \$440,305.

CAMELOT ENTERTAINMENT GROUP, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

8. STOCK OPTIONS

The Company had an agreement with Corporate Awareness Professionals, Inc. ("CAP"), which in part provided for the initial purchase of 1,675,000 shares of its \$.001 par value common stock, through options priced at \$0.15 per share, for \$251,250. CAP also had the option to purchase an additional 1,000,000 shares at \$0.50 per share for \$500,000. Upon purchasing those shares, CAP would have obtained the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at \$0.50 per share. If CAP had exercised all its options, it would have purchased 2,775,000 total shares for \$801,250. All of the options were exercisable until the expiration of the term of the CAP agreement. All options have expired as of June 30, 2005.

9. RELATED PARTY TRANSACTIONS

On March 30, 2003, the Company entered into an agreement with an Affiliate whereby the Company will issue 20% of its outstanding common shares in exchange for services and advances. Shares were issued during the second quarter of 2005 for principal advances of \$55,462. The Affiliate paid \$208,928 in expenses on behalf of the Company during the second quarter of 2005. The amount owed to the affiliate as of June 30, 2005 is \$200,013.

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ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to statements concerning our business outlook or future economic performance; anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or exceptions as to any future events, conditions, performance or other matters which are "forward-looking statements" as that term is defined under the Federal Securities Laws. All statements, other than historical financial information, may be deemed to be forward-looking statements. The words "believes", "plans", "anticipates", "expects", and similar expressions herein are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors, which would cause actual results to differ materially from those stated in such statements. Forward-looking statements include, but are not limited to, those discussed in "Factors That May Affect Future Results," and elsewhere in this report, and the risks discussed in the Company's other SEC filings.

Critical Accounting Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies is detailed in the notes to the financial statements, which are an integral component of this filing.

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carry forwards. The Company has estimated a \$2,450,000 deferred income tax asset related to net operating loss carry forwards and other book/tax differences at June 30, 2005. Management determined that because the Company has yet to generate taxable income, and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset.

The Company has acquired certain technology and licenses. Prior to January 1, 2004, the Company determined that the value of these acquired assets was impaired and has provided an impairment allowance for the full purchase price of these assets. The impairment amount charged to operations in prior years was \$3,113,206.

Critical Accounting Policies

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations, and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, where such policies affect our reported and expected financial results. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Significant Accounting Practices

Beginning January 1, 2004 we adopted new accounting rules which were effective January 1, 2001, which require, among other changes, that exploitation costs, including advertising and marketing costs, be expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual-film-forecast method. The current practice dramatically increases the likelihood of reporting losses upon a film's theatrical release, but should provide for increased returns when a film is released in the ancillary markets of home video and television, when we incur a much lower proportion of advertising costs. Additional provisions under the new accounting rules include changes in revenue recognition and accounting for development costs and overhead, and reduced amortization periods for film costs.

Accounting for Motion Picture Costs

In accordance with accounting principles generally accepted in the United States and industry practice, we amortize the costs of production, including capitalized interest and overhead, as well as participations and talent residuals, for feature films using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories.

Management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to estimated fair value. These revisions can result in significant quarter-to-quarter and year-to-year fluctuations in film write-downs and amortization. A typical film recognizes a substantial portion of its ultimate revenues within the first two years of release. By then, a film has been exploited in the domestic and international theatrical markets and the domestic and international home video markets, as well as the domestic and international pay television and pay-per-view markets. A similar portion of the film's capitalized costs should be expected to be amortized accordingly, assuming the film or television program is profitable.

The commercial potential of individual motion pictures varies dramatically, and is not directly correlated with production or acquisition costs. Therefore, it is difficult to predict or project a trend of our income or loss. However, the likelihood that we would report losses, particularly in the year of a motion picture's release, is increased by the industry's method of accounting, which requires the immediate recognition of the entire loss (through increased amortization) in instances where it is estimated the ultimate revenues of a motion picture could not recover our capitalized costs. On the other hand, the profit of a profitable motion picture must be deferred and recognized over the entire revenue stream generated by that motion picture. This method of accounting may also result in significant fluctuations in reported income or loss, particularly on a quarterly basis, depending on our release schedule, the timing of advertising campaigns and the relative performance of individual motion pictures.

Accounting for Films

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ("SoP 00-2"). SoP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of acquiring films and accounting for exploitation costs, including advertising and marketing expenses. We elected adoption of SoP 00-2 effective as of April 1, 2004.

The principal changes as a result of applying SoP 00-2 are as follows:

Advertising and marketing costs, which were previously capitalized to investment in films on the balance sheet and amortized using the individual film forecast method, are now expensed the first time the advertising takes place.

We capitalize costs of production, including financing costs, to investment in motion pictures. These costs are amortized to direct operating expenses in accordance with SoP 00-2. These costs are stated at the lower of unamortized motion picture costs or fair value (net present value). These costs for an individual motion picture or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such motion picture over a period not to exceed ten years from the date of delivery.

Management plans to regularly review, and revise when necessary, its total revenue estimates, which may result in a change in the rate of amortization and/or write-down of all or a portion of the unamortized costs of the motion picture to its fair value. No assurance can be given that unfavorable changes to revenue estimates will not occur, which may result in significant write-downs affecting our results of operations and financial condition.

Revenue Recognition

Revenue from the sale or licensing of motion pictures is recognized upon meeting all recognition requirements of SoP 00-2. Revenue from the theatrical release of motion pictures is recognized at the time of exhibition based on the company's participation in box office receipts. Revenue from the sale of DVDs in the retail market, net of an allowance for estimated returns, is recognized on the latter of shipment to the customer or "street date" (when it is available for sale by the customer). Under revenue sharing arrangements, rental revenue is recognized when we are entitled to receipts and such receipts are determinable.

Revenues from television licensing are recognized when the motion picture is available to the licensee for telecast. For television licenses that include separate availability "windows" during the license period, revenue is allocated over the "windows." Revenue from sales of international territories are recognized when the feature film is available to the distributor for exploitation and no conditions for delivery exist, which under most sales contracts requires that full payment has been received from the distributor.

For contracts that provide for rights to exploit a program on multiple media (i.e. theatrical, video, television) with a fee for a single motion picture where the contract specifies the permissible timing of release to various media, the fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as the program is released to each media. For multiple-title contracts with a fee, the fee is allocated on a title-by-title basis, based on management's assessment of the relative fair value of each title. Cash payments received are recorded as deferred revenue until all the conditions of revenue recognition have been met.

Income Taxes

The Company recognizes future income tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Capital Structure

The Company has adopted Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129"), which requires companies to disclose all relevant information regarding their capital structure. The Company reached an agreement with Eagle Consulting Group, Inc. on March 28, 2003 to provide operational funding for the Company. In exchange for twenty percent (20%) of the Company's outstanding common stock on an anti-dilutive, continuing basis until the Company could secure additional financing from another source, Eagle agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. Eagle advances from April 1, 2005 to June 30, 2005 total \$208,928 including interest. In accordance with the anti-dilutive provision, the amount of stock due Eagle is calculated on a quarterly basis. This anti-dilution provision to the agreement could have a material adverse effect on our shareholders as it might continue for a substantial period of time and as a result the dilutive effect to the shareholders cannot be fully determined until the funding from Eagle ceases.

Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations.

The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing.

The Company entered into an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. Eagle has advanced the Company an amount of funds in the second quarter of 2005, and it appears unlikely that such funding should be enough to meet all of the Company's cash requirements for the remaining quarters in 2005. However, the Company must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PLAN OF OPERATION

OVERVIEW

The Company was incorporated in Delaware on October 12, 1999. During May 2004 we changed our name to Camelot Entertainment Group, Inc. and changed our business model from pursuing a new approach to venture formation (the Dstage.com Model) to the Camelot Studio Model (or "CSM"), which provides for the development, production, marketing and distribution of motion pictures. The CSM attempts to combine the efficiencies realized by studios of the early 1900s, with the artistic focus and diversity of today's independent productions. Using this approach, the Company believes the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CSM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum of 12 original motion pictures each year. The goal of the CSM is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

Our historical operations, as Dstage.com, Inc., consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financials and the related notes included elsewhere in this quarterly report in addition to thoroughly reading our current plan of operations.

Our View of the Steps Required for Motion Picture Commercialization

We view the motion picture commercialization process as involving three major steps, each of which bears a symbiotic relationship to the costs, creative value and profitability of any planned film to be released by us. These three steps are development, production and distribution. Under our planned model, development should include not only screenplay acquisition and development, but also a carefully constructed and unusually elongated pre-production phase. This process was developed as a result of the direct experience and observations of our management.

By viewing the development phase as a distinct and major component of the motion picture creation process, we hope that we can create a culture that encourages producers, writers and directors associated with our projects to focus their efforts and expertise on creating world-class pictures before the first day of shooting begins. We believe that creating such a culture could potentially result in a substantial reduction of the

cost of our film projects, as compared to the film projects of our competitors. When combined with what we believe is a unique method of attracting, compensating and retaining talent that would otherwise not be involved in an active motion picture project, it is expected that the opportunity for a cost advantage could emerge.

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Two members of our management team, President and Chief Executive Officer Robert P. Atwell, and H. Kaye Dyal, of our film production division, have worked extensively in financing, producing and directing original motion pictures and television programs with a combined 50 years experience in the motion picture and related businesses. This combined experience led our management to a number of beliefs upon which our planned business model should be founded. These key views are:

- The manner in which development and pre-production activities are managed can have the largest impact on both the quality, or creative content, and the cost of creating a motion picture.
- There are a number of factors that make it difficult for most motion pictures to invest large amounts of time and a proportionally large share of a motion picture's overall budget into development and pre-production activities.
- The factors that make it difficult for many motion picture projects to invest a major share of a film's time and financial resources into development and pre-production activities may have created a pervasive business culture that emphasizes moving projects towards principal photography too quickly.
- A very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition.
 - A very small percentage of all directors will participate in principal photography in any given year.
- The percentage of qualified actors that never have the opportunity to participate in a completed original motion picture that is released commercially is substantial.
 - There are large periods of unemployment for many individuals involved in motion picture production.

We believe that these observations suggest that the capacity to create motions pictures, in terms of employable professionals, is far higher than the current demand of existing film production companies for these services. However, we also believe that growth in motion picture consumption worldwide has created increased demand for original motion pictures in general. As a result, we anticipate that the underemployed, or unemployed, directors, writers and other film professionals could help fill a void for low cost, quality original motion picture production, given the right mix of incentives and business structure. There can be no assurance that such benefits, advantages or capacity will ever materialize.

Successfully creating such low cost, but relatively high quality pictures should result in a higher per picture financial return and a lower breakeven point for each film produced. Also, by distributing these pictures primarily through in-house distribution professionals, the per picture return might be increased even further, enabling more motion pictures to be produced by us annually and thereby diversifying the risk associated with any single film project. These beliefs form the foundation for our planned business model and expected strategy.

Our Strategy of Emphasizing the Pre-Production Phase of Motion Picture Commercialization

As noted previously, we believe that a very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition. We believe that this assertion speaks to the opportunity we envision to cost effectively acquire writing, directing producing and other motion picture production talent that would otherwise exceed demand for these services.

This perceived opportunity is critical to our strategy, because without a great script, we believe it is either incredibly expensive or simply impossible to produce a great motion picture. However, we also believe that few great scripts begin as great scripts, but most evolve from a great idea to a standard script and so forth. Matching great script ideas with tried and true expertise of professionals that know character development, genre formulas and how to convert words into pictures that create passion are expected to allow us to realize our vision.

We believe that many small and medium sized production companies can rarely afford to invest their time into unproven writers, much less even consider going with unproven directing talent. Moreover, we believe that the investors and distributors they are aligned with often play a major role in which projects get approved for production, or "green-lighted."

Similarly, we believe that major studios have even more reasons for steering clear from these unproven sources of product. If these assertions are correct, then a large pool of untapped creative talent available for use in motion picture production exists. It is our intention to engage this pool to commercialize motion pictures in accordance with our strategy. To accomplish this objective, we intend to do the following:

- **Obtain Complete And Outright Ownership Of Scripts And Other Literary Works:** We anticipate that by offering the proper incentives to screenwriters and other authors of compelling literary works well suited for a film project, we should be able to acquire complete and outright ownership of these copyrights for a fraction of what many producers would pay simply to get an option on a script. As mentioned, such writers have an incentive that fewer than 10% of Screenwriters Guild members expect to experience in a given year the true opportunity to have their

vision become a theatrically released motion picture. In addition, our plan calls for participating writers to share in the success of their script, through profit participation and indirectly in the success of other film projects we complete, through restricted shares of or common stock. This same formula is expected to allow us to attract directors, producers and other creative personnel with a passion for making pictures that the public wants to see.

- *A Recurring 6-Month Cycle Of Pre-Production Activities:* Our plans for the pre-production phase for each motion picture project we initiate is to utilize a recurring 6-month cycle that starts every month for a new film, enabling us to create a rolling pipeline of product. Unlike our perception of pure independents and small production companies, we don't anticipate that our pre-production phase could consume creative resources by having producers, writers and directors hunt for additional film financing. Instead, we anticipate that each film should have a set and fixed budget. We expect the additional time that should emerge, if we are successful, to allow the production designer, producers, director of photography and other personnel adequate time to find ways to increase quality and reduce costs through skillful planning.
- *Relatively Firm Scheduling Of Film Projects:* Another feature we expect to emerge as a result of our planned approach is that it should allow relatively firm scheduling of the cast at a very early stage, something that we believe is rare in the world of pure independent productions. During this same time, we expect the production team to benefit from a mentoring environment that insures the creative spark sought in each of our productions does not become an increasing collection of unrealistic ambitions, leading to missed production schedules. With these elements firmly in place, we would typically expect principal photography to begin in the fifth month of each project.

Our Strategy of Achieving Higher Quality and Lower Costs During the Production Phase of Motion Picture Commercialization

Four key elements following development and pre-production are expected to enable us to create quality pictures for a fraction of the cost experienced by our competitors. These four elements are:

1. Digital Photography

Like the model we plan to pursue, we believe that purely independent productions can realize costs savings by using digital film technology due to the lower cost of processing, stock, dailies and certain editing costs. We also believe that major studios benefit from using digital technology in certain genres, but not so much from a cost standpoint.

Instead, we think that the heavy special effects used by major studios' high-budget action and science-fiction pictures are increasingly enhanced as a result of using digital photography. While, if true, this would negate some of the cost benefits of using digital photography, the overall value in terms of entertainment quality would still be enhanced, in general. One party that we believe has found the benefits of digital photography rather elusive is the small and mid-sized production company.

We believe that this is generally because when such companies convince a director to use digital photography, the director and director of photography (or "DP") are likely to specify additional camera setups. We also believe that the increased, low-cost coverage available, along with real-time video monitoring, often results in issues between directors and directors of photography on projects of these companies, as they analyze and debate each shot during precious shooting time. As a result, the mixed use of digital photography by small and medium sized production companies generally has a neutral impact on overall value, in our opinion.

2. Profit Participation

We believe that it is very common for purely independent productions to offer profit participation, or points, as a means of getting parties they could otherwise not afford to hire (for cash) to work on the production. If this is in fact a standard method of simply getting a picture made for these types of productions, we believe the effects on value are neutral. That is, if every competitive production is offering this same type of compensation, the potential impact of the incentive is reduced.

Similarly, in the case of major studios, we believe that all of the parties involved in such productions have access to sophisticated negotiators and advocates that can reasonably weigh the potential market value of such incentives. If so, we believe that such incentives rarely offer a competitive advantage to the production. However, for small and medium sized independents, our model assumes that the added incentive of points can be the extra incentive needed to attract certain parties that would otherwise not participate on a given project.

We intend to use profit participation in a manner that we think is precedent setting in the industry. Firstly, under our model, every member of the production stands to participate in the financial success of our film projects, thereby reversing a industry tradition whereby the phrase "net" has had little or no meaning or substance. Similarly, since the same types of writers and directors that would be otherwise willing to work on a picture with little or no compensation are being pursued under our model, albeit at very low cash rates, the added incentive of profit participation is expected to be a meaningful bonus in the eyes of these parties.

3. Production Management

We believe that the largest full-time employers of motion picture production management, and also the entities with the most developed production management infrastructures, are major studios. However, we believe that these large bureaucracies, while essential to the management of a relatively large volume of high budget pictures, also create an environment that often pits creative talent against management. If true, then to a certain degree, this may offset some of the potential advantages of their production management systems. The production management systems of one-picture only, pure independent productions tend to be ad hoc systems that find their way into the process through

the producer, director and other personnel that are assembled to create a one-time organization, in our opinion. This leaves the small and medium sized production companies, who benefit from their ambitions of creating multiple motion pictures. Unfortunately, as their staffs of full-time production and development personnel grow, we believe their budgets grow accordingly, in general, creating little competitive value over time.

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4. Common Stock Incentives

To the best of our knowledge, no other publicly traded film company has ever utilized common stock to incentive all of its creative, production and management resources. There are two specific reasons why this option is not generally available to competitors. Firstly, most of the companies making lower budget pictures do not have business models that justify becoming a publicly traded company. Secondly, for companies that do have the scale to offer publicly traded stock as a form of production compensation, we believe that doing so would be at odds with their fundamental business cultures and, in many cases, at odds with the wishes of their shareholders.

With the exception of using common stock, we believe that each of these value enhancement tools is used to varying degrees, with varying success, by other motion picture productions. However, we are not aware of any other Company that uses the systematic and flawless integration of these elements into each of their productions the way that we intend to. If this is correct, we believe it may explain why few if any motion picture companies can consistently realize the reduction in cash production expenditures combined with the increase of quality that we expect to be a key element of our business model.

Our Strategy of Developing and Utilizing In-house Distribution Expertise

A number of new distribution channels have increased the means by which motion picture product can be consumed and, therefore, the potential channels for revenue. These channels include theatrical or box office, video cassette, DVD, pay-per-view television, cable television, network television, television syndication, non-theatrical outlets, such as in-flight movies, and international channels. With so many new distribution channels available, it may seem surprising that pictures with smaller budgets still find it so difficult to get their films in front of audiences. Our management believes this pervasive problem is primarily due to two difficult obstacles to overcome.

Firstly, we believe that the very reliance on a distributor places a small independent production at the mercy of a party they have limited bargaining power with and virtually no control over: the distributor. Under such a scenario, we believe that even if revenues and expenses are fairly and properly accounted for by the distributor, cash must flow through many hands before revenue makes its way back to investors and other profit participants.

Secondly, and perhaps equally important, we believe that without a large volume of product in the pipeline, the alternatives to using an outside distributor are few, and rarely result in large, predictable inflows of cash. For instance, if an independent producer has a single picture budgeted at \$5 million; it is generally economically impractical to establish an in-house distribution department with the limited mission of directly marketing that one film. At the same time, we believe that volume purchasers of motion picture product, including studios, cable outlets, home video companies and other buyers with large needs for product, require a dependable source of multiple pictures. The one-picture or two-picture production company simply can't meet these needs, making it more efficient for buyers to deal with an agent or sub-distributor, in our opinion. Our planned combination of high-volume and high-quality motion pictures stands to change these economics, making in-house distribution an essential element of our strategy.

Motion Picture Library

A potential benefit of our business model is the planned ownership of an expansive library of feature films that should be, for the most part, unencumbered. If we are successful in implementing our business plan, we could have 12 films or more going into our library annually that could have an extended shelf life in ancillary markets, including, but not limited to, cable, satellite and television syndication, both domestically and internationally, extended DVD's, special edition DVD's and other areas of repurposing.

RESULTS OF OPERATIONS

General

Our historical operations consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financial and the related notes included elsewhere in this quarterly report.

QUARTER ENDED JUNE 30, 2005 COMPARED TO QUARTER ENDED JUNE 30, 2004 AND THREE MONTHS ENDED June 30, 2004 and 2005.

The Company did not generate any revenue during the three months ended June 30, 2005 or the six months ended June 30, 2005.

All expenses incurred during the comparative periods were general and administrative in nature.

The Company has incurred \$4,695,696 of general and administrative expenses since its inception. General and administrative expenses were \$486,174 for the three months ended June 30, 2005, respectively, compared to \$219,851 for the three months ended June 30, 2004. General and administrative expenses were \$603,270 for the six months ended, June 30, 2005 compared to \$351,532 for the six months ended June 30, 2004. Increases due mainly to the \$152,244 of expenses incurred during the Cannes Film Festival in May 2005 and the \$195,000 of consulting expenses incurred during the second quarter of 2005.

The general and administrative expenses for the three months ended June 30, 2005 were primarily comprised of \$102,343 of officer compensation, \$2,748 in shareholder relation expenses which included stock transfer fees, \$203,445 of professional services, accounting, legal expenses and compliance expenses, \$2,469 in local travel expenses and trade show seminars, \$6,401 in dues and subscriptions and other expenses of \$2,919, for corporate filing fees for new subsidiaries, office rent of \$11,907 and miscellaneous General and Administrative expenses of \$1,698. Additionally, \$152,244 in expenses related to the Cannes Film Festival were incurred during the second quarter of 2005, \$30,002 for advertising, \$84,258 in public relations and other marketing costs, \$34,124 in travel and entertainment costs and \$3,860 in printing costs. These expenses were related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

Total General and Administrative expenses of \$486,174 are for the three months ended June 30, 2005.

Travel expenses and fees for dues and subscriptions to professional entertainment business organizations were incurred during the six months ended June 30, 2005 and were not incurred during the same period ended 2004. The expenses were incurred as a result of the Company's assertive efforts to network with entertainment professionals that could assist in further developing the progress of the plan of operation. (Trip to ShoWest, NAB, and planning for trip to Cannes Film Festival)

Travel & entertainment, marketing, public relations, printing and advertising costs for the Cannes Film Festival in France were incurred during the six month period ended, June 30, 2005 and were not incurred during the same period of 2004. The expenses were incurred as a result of the Company's assertive efforts to develop a network of entertainment professionals to develop film projects for the company.

Professional services rendered by financial, film directors, producers and distributors were incurred during the six month period ended, June 30, 2005 and were not incurred during the same period of 2004. The expenses were incurred as a result of the Company's efforts to develop a working management team to assist in completing the operation plan for the company.

LIQUIDITY AND CAPITAL RESOURCES

We have no history of operations as a film production and distribution company. We believe that, due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance.

Our current liquidity and capital resources are provided principally through our financing agreement with Eagle Consulting Group, Inc. ("Eagle"). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%) of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. This quarter, Eagle has advanced the Company a total, including interest, of \$208,928 and \$255,474 for the six month period ended, June 30, 2005. The funding commitment from Eagle should cover all of our operating expenses for the remaining six months of 2005.

In addition, we have entered into an agreement with Corporate Awareness Professionals, Inc. ("CAP"), which in part provided for the initial purchase of 1,675,000 shares of our \$.001 par value common stock through options priced at \$0.15 per share for \$251,250. In addition, CAP had the option to purchase an additional 1,000,000 shares at \$.50 per share for \$500,000. Upon purchasing those shares, CAP had the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at \$.50 per share. If CAP had exercised all its options, it should have purchased 2,775,000 total shares for \$801,250. As of the date of this quarterly report, CAP had not exercised any of its options. All options have expired as of June 30, 2005.

Further, we are in the process of preparing an SB-2 registration statement for the purpose of funding our initial slate of pictures. If the anticipated funding is successful, it is our goal to have between 10 and 12 motion pictures in various stages of development or production within 12 months. In the event we are unable to complete the funding, we could have to delay our slate until such time as the necessary funding is acquired.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

FACTORS THAT MAY AFFECT FUTURE RESULTS

We have an Accumulated Deficit and we have no History of Operations as a Motion Picture Company

We have incurred losses in each operating period since our inception on October 12, 1999. Operating losses may continue, which could adversely affect financial results from operations and stockholder value, and there is a risk that we may never become profitable.

As of June 30, 2005, we have an accumulated deficit of \$7,927,989 all of which related to our previous activities as a business development organization, Dstage.com, and none of which relate to our current activities as a motion picture production, marketing and distribution entity. There can be no assurance that our management will be successful in managing the Company as a motion picture production, distribution and marketing concern.

We expect to have a need for Additional Financing

As of June 30, 2005, we had a working capital deficit of \$262,457. Our history of recurring losses from operations raises a substantial doubt about our ability to continue as a going concern. There can be no assurance that we will have adequate capital resources to fund planned operations or that any additional funds will be available to us when needed, or if available, will be available on favorable terms or in amounts required by us. If we are unable to obtain adequate capital resources to fund our motion picture operations, it may be required to delay, scale back or eliminate some or all of our operations, which may have a material adverse effect on our business, results of operations and ability to operate as a going concern.

Our business requires a substantial investment of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues from our motion pictures, if any. This time lapse requires us to fund a significant portion of our capital requirements from private parties, institutions, and other sources. Although we intend to reduce the risks of our production exposure through strict financial guidelines and financial contributions from broadcasters, sub-distributors, tax shelters, government and industry programs and studios, we cannot assure you that we will be able to implement successfully these arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. If we increase our production slate or our production budgets, we may be required to increase overhead, make larger up-front payments to talent and consequently bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations or financial condition.

Competition is Severe in the Motion Picture Industry

The motion picture industry is highly competitive. Our management believes that a motion picture's theatrical success is dependent upon general public acceptance, marketing technology, advertising and the quality of the production. We intend to produce motion picture productions that normally should compete with numerous independent and foreign productions as well as productions produced and distributed by a number of major domestic companies, many of which are units of conglomerate corporations with assets and resources substantially greater than ours.

Our management believes that in recent years there has been an increase in competition in virtually all facets of the motion picture industry. With increased alternative distribution channels for many types of entertainment, the motion picture business competes more intensely than

previously with all other types of entertainment activities as well as television. While increased use of pay per view television, pay television channels, and home video products are potentially beneficial, there is no guarantee that we will be able to successfully penetrate these markets. Failure to penetrate these potential distribution channels would have a material adverse impact on our results of operations.

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Substantial Risks Germane to the Motion Picture Industry

The success of a single motion picture project is fraught with an unusually high degree of uncertainty and risk. Similarly, the probability of successfully completing a motion picture project is also laden with an unusually high degree of uncertainty and risks. A studio or independent producer's ability to finance a project, execute a successful distribution strategy, obtain favorable press and compete with an unknown quantity of competing releases are just some of the factors that impact the commercial success or failure of a film project. Our strategy involves producing a minimum of 12 motion pictures per year. While the intent is to reduce production risk through this strategy, our plan has the potential to compound risks germane to the industry.

Movie producers are often involved in several projects at the same time and an active film director is often presented with opportunities to direct many movies. In addition, independent contractors needed to produce the film often have commitments to more than one movie project. Because we may decide to replace key members of our production team if they are unable to perform their duties within our schedule, the marketing appeal of our film may be reduced.

If we do not complete a film on schedule or within budget, our ability to generate revenue may be diminished or delayed. Our success depends on our ability to complete the film on schedule and within budget.

Each film we produce and distribute should appeal to a given segment of society to achieve acceptance. Although our intent to target niche markets that should require less than broad market acceptance to achieve commercial success, there can be no assurance that this strategy will succeed.

Motion picture production and distribution is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture since the revenues derived from the production and distribution of a motion picture (which do not necessarily bear a direct correlation to the production or distribution costs incurred) depend primarily upon its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the acceptance of competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. Further, the theatrical success of a motion picture is generally a key factor in generating revenues from other distribution channels. There is a substantial risk that some or all of our motion pictures will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized.

Theaters are more likely to exhibit feature films with substantial studio marketing budgets. Even if we are able to complete the films and obtain distribution, it is unclear how much should be spent on marketing to promote each film by our distributors.

All of these factors cannot be predicted with certainty. In addition, motion picture attendance is seasonal, with the greatest attendance typically occurring during the summer and holidays. The release of a film during a period of relatively low theater attendance is likely to affect the film's box office receipts adversely.

Distribution in Foreign Countries

We plan to license motion picture and television programming in foreign countries to sub-distributors. If we are at all successful in this regard, a portion of our revenues should be derived from foreign sources. Because of this, our business is subject to certain risks inherent in international trade, many of which are beyond our control. Such risks include, but are not limited to, changes in laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes), differing degrees of protection for intellectual property, the instability of foreign economies and governments and in some cases an adverse acceptance to a film may occur, resulting in a demand to renegotiate the license agreement's terms and conditions. In addition, fluctuations in foreign exchange rates may affect our results of operations.

Piracy of Original Motion Pictures we Plan to Produce may Reduce our Revenues and Potential Earnings

According to industry sources, piracy losses in the motion picture industry have increased substantially, from an estimated \$2.2 billion in 1997 to an estimated \$3.5 billion in 2002. In certain regions such as Asia, the former Soviet Union and South America, motion picture piracy has been a major issue for some time. With the proliferation of DVD format around the globe, along with other digital recording and playback devices, losses from piracy have spread more rapidly in North America and Europe. Piracy of original motion pictures we produce and distribute may adversely impact the gross receipts received from the exploitation of these films, which could have a material adverse effect on our business, results of operations or financial condition.

Fluctuation of Operating Results

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our

revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods.

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In accordance with generally accepted accounting principles and industry practice, we intend to amortize film costs using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. To comply with this accounting principal, our management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to net realizable value. Results of operations in future years should be dependent upon our amortization of film costs and may be significantly affected by periodic adjustments in amortization rates. The likelihood of the Company's reporting of losses is increased because the industry's accounting method requires the immediate recognition of the entire loss in instances where it is expected that a motion picture should not recover the Company's investment.

Similarly, should any of our films be profitable in a given period, we should have to recognize that profit over the entire revenue stream expected to be generated by the individual film.

Film Production Budgets may Increase and Film Production Spending may Exceed such Budgets

Our future film budgets may increase due to factors including, but not limited to, (1) escalation in compensation rates of people required to work on our projects, (2) number of personnel required to work on our projects, (3) equipment needs, (4) the enhancement of existing or the development of new proprietary technology and (5) the addition of facilities to accommodate the growth of a studio. Due to production exigencies, which are often difficult to predict, it is not uncommon for film production spending to exceed film production budgets, and our projects may not be completed within the budgeted amounts. In addition, when production of each film is completed, we may incur significant carrying costs associated with transitioning personnel on creative and development teams from one project to another. These carrying costs increase overall production budgets and could have a material adverse effect on our results of operations and financial condition.

Our Anticipated Successive Releases of Films could Place a Significant Strain on our Limited Resources

We anticipate establishing parallel creative teams so that we can develop more than one film at a time. These teams are expected to work on future projects, as we move towards producing 12 films per year. Due to the anticipated strain on our personnel from the effort required for the release of an upcoming film and the time required for creative development of future films, it is possible that we would be unable to release twelve new films in the first year and in subsequent years. We may be required to expand our employee base, increase capital expenditures and procure additional resources and facilities in order to accomplish the scheduled releases of our films. This growth and expansion may place a significant strain on our resources. We cannot provide any assurances that any future film will be released as targeted or that this strain on resources will not have a material adverse effect on our business, financial condition or results of operations. As we move towards achieving 12 films a year, there will likely be additional demands placed on the availability of key people. A lack of availability of key people may adversely impact the success and timing of our future films.

We may implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvement and maintenance of our accounting system, other internal management systems and backup systems. Our growth and these diversification activities, along with the corresponding increase in the number of our employees and our rapidly increasing costs, may result in increased responsibility for our management team. We may need to improve our operational, financial and management information systems, to hire, train, motivate and manage our employees, and to provide adequate facilities and other resources for them. We cannot provide any assurance we will be successful in accomplishing all of these activities on a timely and cost-effective basis. Any failure to accomplish one or more of these activities on a timely and cost-effective basis would have a material adverse effect on our business, financial condition and results of operations.

The decisions regarding the timing of theatrical releases and related products, the marketing and distribution strategy, and the extent of promotional support are important factors in determining the success of our motion pictures and related products. We may enter into agreements with third-parties to assist us in the marketing and distribution of our films, and we may require the marketers and distributors to consult with us with respect to all major marketing and distribution decisions. Said agreements may or may not include: (1) the manner in which distributors may distribute our films and related products; (2) the number of theaters to which our films are distributed; (3) the specific timing of release of our films and related products; or (4) the specific amount or quality of marketing and promotional support of the films and related products as well as the associated promotional and marketing budgets.

Terrorist Activities and Resulting Military and other Actions could Adversely Affect our Business

The continued threat of terrorism within the United States and abroad, military action and heightened security measures in response to such threats, as well as other socioeconomic and political events, may cause significant disruption to commerce, including the entertainment industry, throughout the world. For example, the terrorist attacks in New York and Washington, D.C. on September 11, 2001 disrupted commerce throughout the United States and Europe. Such disruption in the future could have a material adverse effect on our business and results of operations.

We are Smaller and Less Diversified than Many of our Competitors.

Although we plan to be an independent distributor and producer, we expect to constantly compete with major U.S. and international studios. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels that can provide both means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture and television operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The Motion Picture Industry is Highly Competitive and at Times may Create an Oversupply of Motion Pictures in the Market.

The number of motion pictures released by our competitors, particularly the major U.S. studios, may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our films to succeed commercially once we begin to produce, market and distribute our films. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of our more limited production and advertising budgets, we plan to not release our films during peak release times, which may also reduce our potential revenues for a particular release. Moreover, we cannot guarantee that we can release all of our films when they are otherwise scheduled. In addition to production or other delays that might cause us to alter our release schedule, a change in the schedule of a major studio may force us to alter the release date of a film because we cannot always compete with a major studio's larger promotion campaign. Any such change could adversely impact a film's financial performance. In addition, if we cannot change our schedule after such a change by a major studio because we are too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of our film. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The limited supply of motion picture screens compounds this product oversupply problem. Currently, a substantial majority of the motion picture screens in the U.S. typically are committed at any one time to only ten to 15 films distributed nationally by major studio distributors. In addition, as a result of changes in the theatrical exhibition industry, including reorganizations and consolidations and the fact that major studio releases occupy more screens, the number of screens available to us when we want to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home video and pay and free television, of our motion pictures may also decrease, which could have a material adverse effect on our business, results of operations or financial condition.

We May Not be Able to Obtain Additional Funding to Meet our Requirements

Our ability to grow our company through acquisitions, business combinations and joint ventures, to maintain and expand our development, production and distribution of motion pictures and to fund our operating expenses will depend upon our ability to obtain funds through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets. If we do not have access to such financing arrangements, and if other funding does not become available on terms acceptable to us, there could be a material adverse effect on our business, results of operations or financial condition.

We Face Risks from Doing Business Internationally

We may distribute motion picture productions outside the United States through third party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include changes in local regulatory requirements, including restrictions on content; changes in the laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes); differing degrees of protection for intellectual property; instability of foreign economies and governments; cultural barriers; wars and acts of terrorism. Any of these factors could have a material adverse effect on our business, results of operations or financial condition.

Leverage Risks

The degree to which we might become leveraged may require us to dedicate a substantial portion of our cash flow to the payment of principal of, and interest on, our indebtedness, reducing the amount of cash flow available to fund film production costs and other operating expenses. Additionally, the degree to which we might become leveraged may adversely affect our ability to obtain additional financing, if necessary, for such operating expenses, to compete effectively against competitors with greater financial resources, to withstand downturns in our business or the economy generally and to pursue strategic acquisitions and other business opportunities that may be in the best interests of us and our stockholders.

ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our management concluded that our disclosure controls and procedures are effective and timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

There were no significant changes in our internal controls over financial reporting or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies or material weaknesses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES

On January 5, 2005, at 1:30 p.m. PST, via telephone conference a special meeting of the board of directors was held to Establish Series A and Series B Preferred Stock, with such voting powers, designations, preferences and rights or qualifications, limitations or restrictions as detailed in the Preferred Stock designations.

It was Resolved that Series A Preferred Stock shall be reserved for employees, consultants and other professionals retained by the Company.

It was further Resolved that Series B Preferred Stock shall be reserved for the Board of Directors of the Company.

The Chairman next stated that, in accordance with the agreements, letters of intent and other assurances between the Company and Robert P. Atwell, including companies controlled and or owned by Mr. Atwell or his affiliates, collectively ("Atwell"), the Company shall need to issue to Atwell 5,100,000 shares of Series A Preferred Stock at a par value of \$.001 per share and 5,100,000 shares of Series B Preferred Stock at a par value of \$.001 per share. Upon a motion duly made and seconded, and following a discussion, the following resolutions were unanimously passed.

On June 29, 2005, at 1:30pm PST, via telephone conference a special meeting of the board of directors was held to issue shares of common stock for accrued officer compensation, issue shares of common stock to various consultants performing services for the company and to Eagle Consulting Group for providing capital for continuing operations of the company.

It was Resolved that the company owed its officers \$191,666 in accrued compensation. First quarter accrued compensation of \$87,500 and second quarter accrued compensation of \$104,166. The company issued a total of 911,459 restricted common shares at a market value of \$87,500 for the first quarter of 2005 services and a total of 1,364,575 restricted common shares at a market value of \$102,343 for second quarter 2005 services. The total shares issued for compensation of officers for the first and second quarter of 2005 was 2,276,034 shares.

It was Resolved that the Board authorized the company to issue 651,042 shares of the Company's \$.001 par value common stock to Robert Atwell for services during the first quarter of 2005.

It was Resolved that the Board authorized the company to issue 833,333 shares of the Company's \$.001 par value common stock to Robert Atwell for services during the second quarter of 2005.

It was Resolved that the Board authorized the company to issue 260,417 shares of the Company's \$.001 par value common stock to Jane Olmstead for services during the first quarter of 2005.

It was Resolved that the Board authorized the company to issue 86,602 shares of the Company's \$.001 par value common stock to Jane Olmstead for services during the second quarter of 2005.

It was Resolved that the Board authorized the company to issue 444,440 shares of the Company's \$.001 par value common stock to George Jackson for services during the second quarter of 2005.

In the efforts to build a management team the company issued stock to the new management team.

It was Resolved that George Jackson, H K Dyal, Chris Davis and Craig Kitchens would each receive 1,000,000 shares of the Company's \$.001 par value common stock for consulting services provided during the second quarter of 2005.

The Chairman next stated that in accordance with the agreement with Eagle Consulting Group, Inc. and the Company, upon issuance of the above shares, there will be a total of 81,227,243 shares outstanding, resulting in 16,245,449 total shares due to Eagle Consulting Group, Inc. as of June 30, 2005. Eagle Consulting Group, Inc. had previously been issued 14,396,727 shares, leaving a balance of 1,848,722 shares to be issued. The Company determined that the price per share in connection herewith would be .03, based upon the original agreed upon price. With this issuance of shares to Eagle Consulting Group, Inc., there will be a total common stock of 83,075,964 shares, issued, and outstanding. Upon a motion duly made and seconded, and following a discussion of other business matters, and the above June 29, 2005 resolutions were unanimously passed.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

31.1 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

31.2 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

32.1 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

b. Reports on Form 8-K

NONE

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMELOT ENTERTAINMENT GROUP, INC.
(Registrant)

/S/ ROBERT P. ATWELL

Robert P. Atwell
Chief Executive Officer

/S/ GEORGE JACKSON

George Jackson
Chief Financial Officer

August 15, 2005

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EXHIBIT 31

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Certifications

I, Robert P. Atwell, certify that:

1. I have reviewed this quarterly report on Form 10-QSB Camelot Entertainment Group, Inc
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 15, 2005

/s/ ROBERT P. ATWELL
Robert P. Atwell
President and Chief Executive Officer

Certifications

I, George Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Camelot Entertainment Group, Inc.:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I, are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 15, 2005

/s/ GEORGE JACKSON
George Jackson
Chief Financial Officer

EXHIBIT 32

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**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Camelot Entertainment Group, Inc, a Delaware corporation (the "Company"), on Form 10-QSB for the quarter ending June 30, 2005 as filed with the Securities and Exchange Commission (the "Report"), we, Robert P. Atwell, Chief Executive Officer of the Company and George Jackson, Chief Financial Officer of the Company, respectively certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ ROBERT P. ATWELL

Robert P. Atwell

President and Chief Executive Officer

August 15, 2005

/s/ GEORGE JACKSON

George Jackson

Chief Financial Officer

August 15, 2005