SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
FIRST AMENDED

FOR ANNUAL AND TRANSITIONAL REPORTS UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

x ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

o TRANSITION REPORT PURSUANT TO SECTION 13 OR SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.
(EXACT NAME OF SMALL BUSINESS REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	52-2195605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

CAMELOT ENTERTAINMENT GROUP, INC.
2020 Main Street, Suite 990
Irvine, California 92614
(Address of principal executive offices) (Zip Code)

(949) 777-1080
Registrant's telephone number, including area code

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE EXCHANGE ACT:
(TITLE OF CLASS)
COMMON STOCK, PAR VALUE $0.001

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

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

The approximate aggregate market value of 22,329,079 Common Stock shares held by non-affiliates of the Registrant, based on 106,655,743 total outstanding shares less 84,326,664 shares held by affiliates. Total non-affiliated shares at a market price of $.07 had a market value of $1,563,036 as of December 31, 2006. Total market value of all outstanding shares was $7,465,902 as of December 31, 2006.

On December 31, 2006, the Registrant had outstanding 106,655,743 shares of Common Stock, $0.001 par value.

The Registrant's revenues for the year ended December 31, 2006 were $0.

DOCUMENTS INCORPORATED BY REFERENCE: SEE ITEM 13

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FORM 10-KSB ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2006

CAMELOT ENTERTAINMENT GROUP, INC.

THIS REPORT ON FORM 10-KSB CONTAINS 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.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Background of the Company

We are a vertically integrated media enterprise that creatively conceptualizes, finances, produces, and distributes original entertainment content across various media, including motion pictures, television, interactive gaming, radio and a multitude of digital media channels. We were originally incorporated in Delaware on October 12, 1999 as Dstage.com, Inc. with the intention to provide support, organization and restructuring services to development stage companies. From then, until March 31, 2003, the Company's activities consisted of developing its business plan, raising capital, business plan implementation, recruiting a management team and entering into new ventures and alliances with affiliates. On March 31, 2003, we underwent a restructuring which resulted in a new management team and the adoption of a new business model to pursue the development, production, marketing and distribution of motion pictures. During May 2004, we changed our name to Camelot Entertainment Group, Inc. ("CMEG"), and incorporated its refined business model of developing, producing, marketing and distributing motion pictures, television and digital media. Since inception, we have been in the development stage and our activities 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.

During 2004 and 2005 we acquired three companies, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and Camelot Films, Inc., a Delaware corporation, all of which are our wholly-owned subsidiaries. None of the corporations have current operations, assets or liabilities. Each newly acquired subsidiary will handle a specific area of our business model, including, but not limited to, production services, marketing, distribution and our new family film division.

We also decided during 2004 to establish a family film division which would be dedicated to developing, producing, marketing and distributing specifically family films domestically and internationally. Craig Kitchens was named the new president of this division during the first quarter of 2005. This business named Ferris Wheel Films, Inc., and was incorporated in the state of Nevada in the second quarter of 2005, which is a wholly owned subsidiary of Camelot Entertainment Group, Inc.

Fiscal year 2004 also saw us explore the possibility of setting up European operations in order to better facilitate potential funding and production opportunities in Europe. The first step in this process was to be the retention of a business consultant to represent us at the Berlin Film Festival during the first quarter of 2005. In the second quarter of 2005, we formed Camelot Distribution Group, Inc. and hired Chris Davis International, Inc. to consult with us and help develop our international film distribution subsidiary. Camelot Distribution Group, Inc. was incorporated in Nevada in the second quarter of 2005 and is also a wholly owned subsidiary of Camelot Entertainment Group, Inc.

During fiscal year 2006, with the emergence of our studio group operations, we decided to implement a corporate structure that would feature the parent company, Camelot Entertainment Group, Inc., and three subsidiaries, Camelot Film and Media Group, Camelot Studio Group and Camelot Production Services Group. By establishing three top-level divisions, we will be able to streamline our management efforts in the future, concentrate cost centers and expand revenue potential.

Our Structure

We are comprised of the following three top-level divisions that can act in concert on our projects or autonomously as circumstances warrant.

- § Camelot Film & Media Group
- § Camelot Studio Group
- § Camelot Production Services Group

Camelot Film & Media Group is responsible for all content production and distribution. It is organized into five operational units:

- § Camelot Films
- § Camelot Features
- § Camelot Distribution
- § Camelot Television
- § Camelot Digital Media

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Camelot Studio Group is solely focused on the development, financing, design, planning, building, completion and operation of the major West Coast production studio, which Camelot is currently proposing to locate in the Advanced Technology & Education Park ("ATEP") complex in Tustin, California, which would include the following entities:

§ Studio Development
§ Business Development
§ Master Development
§ Academic Program Development

Camelot Production Services Group is comprised of six divisions:

§ Technology
§ Radio and Music
§ Consulting
§ Financial Services
§ Event Management
§ Publishing

Our New Business Model

The new management team developed a new business model for implementation during 2004 and continued to enhance its model during 2005 and 2006. The plan 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. Three key ingredients of the business model are financial transparency, full-time annualized employment and employee revenue/stock ownership.

For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the Camelot model 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, Camelot intends to invest directly in top of the line technology, spreading the costs over a minimum 12 original motion pictures each year. The goal 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.

We believe that only a fraction of the writers, directors, actors and other film production personnel actively seeking motion picture projects are successful in any given year. Similarly, we believe that only a small fraction of films in production in any given year will actually be released and an even smaller percentage will generate profits. As a result, it is our opinion that independent filmmakers are often willing to go to great lengths to get a picture made, sacrificing not only their current standard of living, but also their claim to potential profits made by the film. Despite these concessions, relatively few succeed. Our business model is intended to overcome these obstacles for writers, producers, directors, actors and other personnel that wish to actively participate in original motion picture projects and are willing to accept incentive and stock based compensation for a portion of their efforts, while still receiving full compensation and benefits.

We believe that our plan to create our motion pictures should succeed because our management team has worked extensively in all phases of motion picture production. In addition, we are actively seeking to bolster our management team with executives who have extensive experience in not only motion picture production, distribution and marketing, but also in television and other related fields. This combined experience led our management team to a number of beliefs upon which our business model for creating our product is founded. These key views are:

- The manner in which development and pre-production activities are managed can have the largest impact on the quality, creative content and the cost of creating a motion picture.

- There are a number of factors that make it difficult for most production companies 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.

Successfully creating such low cost, but relatively high quality pictures might 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 strategy.

Mission Statement

The Company's mission is to establish a presence in the motion picture industry by developing, producing, marketing and distributing high quality, low budget motion pictures utilizing new technologies while combining the efficiencies realized by studios of the early and mid 1900s with the artistic focus and diversity of today's independent productions.

The Business Model for Camelot Entertainment Group, Inc.

The new management team developed a new business model for implementation during 2004 and continued to enhance its model during 2005. The plan 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. Three key ingredients of the business model are financial transparency, full-time annualized employment and employee revenue/stock ownership.

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Recent Developments

During 2006, we continued the process of implementing our business plan, including beginning the critical process of taking the initial steps which hopefully will result in us securing funding for the Company and our projects. Upon completion of our initial formal business plan, we began the process of preparing our funding documents, including the private placement memorandum and registration statement. Once these documents are finalized, they will be filed with the Securities and Exchange Commission ("SEC") and various state regulatory agencies. We plan to commence the formal funding process during 2007. Prior to this year we have purchased scripts at a cost of $18,800 and continued to pursue other business development projects. In addition, we have expanded our scope of operations that will hopefully result in significant progress during 2007.

In order to successfully implement our business model, we will need to secure the necessary financing. If we are unable to do so, we may not be able to sustain operations. The specific amount and types of funding we will be seeking will be finalized by the time we commence the filing of our documents with the SEC and the state agencies.

In addition, we will be exploring funding options with various international resources currently being developed by our management team. There can be no assurance that any of these potential resources will ever be realized, or that any of them will participate in any funding of our Company and our projects. The international regions currently being explored include Europe, specifically Germany and the United Kingdom, and the Far East, specifically China.

Our corporate operating structure continued to evolve during 2006, with shareholders approving the acquisition of three new subsidiaries, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and Camelot Films, Inc., a Delaware corporation. Each of these corporations did become wholly owned subsidiaries of our Company during 2005. None of the corporations have current operations, assets or liabilities. Each newly acquired subsidiary will handle a specific area of our business model, including, but not limited to, production services, marketing, distribution and our new family film division.

We decided during 2004 to establish a family film division which would be dedicated to developing, producing, marketing and distributing specifically family films domestically and internationally. Named Ferris Wheel Films, Inc. the business was incorporated in the state of Nevada in the second quarter of 2005, as a wholly owned subsidiary of Camelot Entertainment Group, Inc. The business model for this new division is similar to our base business model.

Fiscal year 2004 also saw us explore the possibility of setting up European operations in order to better facilitate potential funding and production opportunities in Europe. The first step in this process was to be the retention of a business consultant to represent us at the Berlin Film Festival during the first quarter of 2005. In the second quarter of 2005, we formed Camelot Distribution Group, Inc. and hired Chris Davis International, Inc. to consult with us and help develop our international film distribution subsidiary. Camelot Distribution Group, Inc. was incorporated in Nevada in the second quarter of 2005 and is also a wholly owned subsidiary of Camelot Entertainment Group, Inc.

We also continued to interview potential entertainment law firms to represent us specifically on entertainment legal issues that will arise as we continue to implement our business model. In the first quarter of 2005 we retained Manatt, Phelps and Phillips, a well established and respected entertainment law firm to represent Camelot Entertainment Group, Inc. and all of our subsidiaries.

In addition, we continued to interview potential public relation firms during 2004. In the first quarter of 2005, Insignia Public Relations and Media Strategies was hired to spearhead our marketing campaign for the Cannes Film Festival. Insignia has also done other marketing and public relations work for the company during this year.

As part of our plan to enhance our management team, industry veteran Michael Ellis was hired during the first quarter of 2006 as the Chief Operating Officer of Camelot Entertainment Group, Inc. He was also appointed to our Board of Directors. In August 2006, Mr. Ellis was named President of our Camelot Studio Group subsidiary.

Business of Issuer

Principal Products or Services and Their Markets

We intend to engage in the development, production, marketing and distribution of original motion pictures. Our objective is to develop, produce, market and distribute 12 pictures annually. Our initial plans call for a slate of 36 pictures, with a total cash investment of $15,000,000 for the slate. We plan to operate on an annual budget basis, allocating expenses over the planned 12 pictures we expect to produce annually. By utilizing production teams that will be hired on an annual basis, our cost allocation per film project is reduced significantly, in some cases by 30 to 40 per cent. The elements of our annual budget will include cash, deferments, corporate contributions and utilization of our common stock. Each picture is expected to have a 12 month production cycle, including 6 months of pre-production, 2 months of physical production and 4 months of post-production. Our plan is to market and distribute all of our pictures ourselves through our Camelot Distribution subsidiary, thereby keeping as much control as possible over the revenues generated by our productions.

Cash Component

Our plan is to raise sufficient capital to finance our first sixteen months of operations, production and distribution activities, the time period management feels it will take for us to realize ongoing revenues substantial enough to maintain monthly operating, production and distribution expenses. We plan to file a SB-2 registration statement during the second or third quarter of 2006. We will not be able to commence our plan to develop, produce, market and distribute 12 pictures annually until we have raised the necessary capital. In the event we are unable to secure this funding on a timely basis, our ability to implement our plan would be jeopardized. See “Risk Factors”.

Deferment Component

A majority of line items in the budgets will have a deferment component. In addition to cash payments, each individual and vendor would receive a deferment, or delayed payment, which we anticipate to pay out of revenues generated by our films. By fully disclosing all financial elements connection with the pictures, which we call financial transparency, we believe that the deferment component can become a trusted and reliable source of payment for our employees and vendors.

Corporate Contribution Component

We anticipate providing each film produced by us certain items in the budget that normally would have to be either rented or purchased from a third party vendor. These “in-kind” contributions may include cameras, lights, grip and electrical equipment, vehicles, legal and accounting services, certain executive producer and producer services, production and location offices and other goods and services to be determined on a film by film basis.

Common Stock Component

We plan to issue every individual working on our films shares of our common stock as part of their compensation package or vendor contract. We anticipate that this common stock component will enhance each individual or vendor’s consideration to such an extent that these individuals and entities will continue to work with us within the parameters of our budget model.

Key Components of the Production Process

The key components of motion picture production are generally viewed as consisting of development, pre-production, production or principal photography, post-production, marketing and distribution. While these terms are used in similar ways by many major studios and independent productions, the relative resources of the parties involved in producing an original motion picture have a meaningful impact on both the scale and scope of the specific activities these components are comprised of. For example, in a major studio production, the post-production phase may include use of numerous special effects professionals and companies, composers and music editors, in addition to other personnel. This is in contrast to many independent productions that might be able to fit a music editor into their budget, but may not be able to afford hiring a composer to create an original score, much less an orchestra to perform and record the score. Similarly, many independent productions might not be able to afford hiring a leading special effects company for months at a time, but may be able to fit some stock special effects footage into a production or hire an editor that also has some experience with editing special effects. As our business model depends to a large extent on our ability to efficiently mitigate some of these differences, our description of the motion picture production process includes certain references to our perception of differences between major studio productions and independent productions.

Development

In general, the development phase of motion picture production begins with converting a concept or literary work into a script. In certain cases, a completed script, or screenplay, may already exist, and require a studio or independent producer to acquire rights to the script. Such rights could be an outright purchase of a literary work or an option to purchase the literary work or script. In the case of a major studio, the next steps in the development phase of a motion picture could often involve developing a budget, getting contingent commitments from talent such as directors and cast members, and assessing the overall creative potential of the project. Independent productions generally conduct similar activities; the key difference is often that an independent producer has substantially less financial and human resources with which to execute these activities. As a result, certain independent productions must seek external financing from private investment sources to enable shaping the motion picture concept into an attractive package that could hopefully result in raising additional funds needed to actually produce the motion picture.

In the case of studios and independent production companies, their staffs actively seek and participate on the acquisition of completed scripts or developing scripts into motion picture projects, usually with either in-house producers or non-affiliated producers who specific projects they desire to produce. Once the screenplay or story rights have been secured, talent is lined up, a budget and production schedule has been created, the package is presented to decision-makers at the studio or independent production company that either approves the project, or “greenlights” the project, or declines the project. If the project is approved, it moves into the pre-production phase.

The decision whether to “greenlight,” or proceed with production of, a film is a diligent process that typically involves numerous key executives of a major studio, in contrast to an independent company where possibly the entire process might be handled by just one person. Generally, the production division presents projects to a committee comprised of the heads of a studio’s production, distribution, home entertainment, international, legal and finance departments. In this process, scripts are discussed for both artistic merit and commercial viability. The committee considers the entire package, including the script, the talent that may be attached or pursued and the production division’s initial budget. They also discuss talent and story elements that could make the product more successful. Next, the heads of domestic and international distribution prepare estimates of projected revenues and the costs of marketing and distributing the film. The studio’s finance and legal professionals review all of the projections, and the committee decides whether the picture is worth pursuing by balancing the risk of a production against its potential for financial success. The studio may seek to mitigate the financial risk associated with film production by negotiating co-production agreements, pre-selling international distribution rights and capitalizing on government subsidies and tax credits. In addition, a studio might attempt to minimize its production exposure by structuring deals with talent that provide for them to participate in the financial success of the motion picture in exchange for reducing up-front payments.

Pre-Production

In general, the pre-production phase of motion picture production involves executing binding engagements of creative personnel, scouting and securing locations for principal photography, firming up the filming schedule and budget, and taking all other steps necessary to facilitate actual filming during the production, or principal photography, phase.

Production/Principal Photography

Principal photography, or production, is the phase where actual filming of the motion picture takes place. The actors, producers, directors, staff, locations and equipment that were engaged and planned for in the pre-production phase must be brought together to create the primary film footage that should enable a meaningful creative work to be edited into a quality finished product. While the planning that took place during the pre-production phase is a critical success factor, a large amount of uncertainties exist that can positively, or negatively, impact outcomes of the production phase. For example, weather may cause delays in the shooting schedule, talent may become injured or sick and the director may not be able to extract the quality of performances desired from actors. In the case of a major studio production, access to capital may enable more resources to be deployed to mitigate these risks. In the case of an independent production, these uncontrollable factors may be more likely to result in the failure to complete a motion picture of the quality envisioned during the pre-production phase.

Post-Production

Following the last date of principal photography, the film footage produced during that phase enters the post-production phase. Post-production is the phase where the film footage captured in the production phase is enhanced and edited into a form that should, hopefully, strike a cord with the target audience upon release of the completed motion picture. This phase includes activities such as adding voices as needed, opticals, music, special effects, soundtracks, and even additional film footage. These elements must be brought together symbiotically, to create a completed negative ready to be converted into release prints. This phase has a substantial impact on how an audience perceives the work that was performed during the principal photography phase. For instance, although the performances of actors and directors may have been excellent during the principal photography phase, if the sound, sequence of visuals and events are not brought together in the proper manner, the end result may not be artistically or commercially viable. For major studios, hiring the best available consultants, editors or other parties to remedy, at least partially, such an outcome can often mitigate such an event. Few independent productions can access such resources without exceeding the projected revenues required to deliver a potential return to their investors.

The Motion Picture Industry

The motion picture industry consists of two principal activities: production and distribution. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures throughout the world in a variety of media, including theatrical exhibition, home entertainment, television and other ancillary markets.

General. According to the Motion Picture Association’s *U.S. Theatrical Market: 2006 Statistics*, overall domestic box office revenue was approximately $9.49 billion in 2006. This represents a 5.5% increase in total domestic box office. Global box office reached an all-time high with $25.82 billion in 2006, an 11% increase. Although it fluctuates from year to year (including a moderate decline from 2004 to 2005), the domestic motion picture industry has grown in revenues and attendance over the past 10 years, with box office receipts up 63.7% and admissions up 11.1% from 1995 to 2005. U.S. theater admissions grew 3.3% to 1.45 billion tickets, ending a 3 year downward trend. (However, revenues and attendance numbers remained fairly flat from 2002 to 2005.)

Competition. Major studios have historically dominated the motion picture industry. The term major studios is generally regarded in the entertainment industry to mean: Universal Pictures (“Universal”); Warner Bros.; Twentieth Century Fox; Sony Pictures Entertainment (“Sony”); Paramount Pictures; and The Walt Disney Company (“Disney”). Competitors less diversified than the major studios include Dreamworks SKG, The Weinstein Company, Jerry Bruckheimer Films, Miramax Films, Lions Gate Entertainment Corp., New Line Cinema, Newmarket Films, Motion Picture Distribution LP and IFC Entertainment.

Despite the limited resources generally available to independent studios, independent films have gained wider market approval and increased share of overall box office receipts in recent years. Past successful independent films such as *My Big Fat Greek Wedding, Bend It Like Beckham, Saw II* and *Crash* highlight moviegoers’ willingness to support high quality motion pictures despite limited pre-marketing and production budgets.

Product Life Cycle. Successful motion pictures may continue to play in theaters for more than three months following their initial release. Concurrent with their release in the United States, motion pictures are generally released in Canada and may also be released in one or more other foreign markets. After the initial theatrical release, distributors seek to maximize revenues by releasing movies in sequential release date windows, which are generally exclusive against other non-theatrical distribution channels:

Typical Film Release Windows*

Release Period	Months After Initial Release	Approximate Release Period
Theatrical	—	0-3 months
Home video/ DVD (1st cycle)	3-6 months	1-3 months
Pay-per-transaction (pay per-view and video-on-demand)	4-8 months	3-4 months
Pay television	9-12 months**	18 months
Network or basic cable	21-28 months	18-60 months
Syndication	48-70 months	12-36 months
Licensing and merchandising	Concurrent	Ongoing
All international releases	Concurrent	Ongoing

* These patterns may not be applicable to every film, and may change with the emergence of new technologies

** First pay television window.

Production. The production of a motion picture begins with the screenplay adaptation of a popular novel or other literary work acquired by the producer of the motion picture or the development of an original screenplay based upon a story line or scenario conceived or acquired by the producer. In the development phase, the producer may seek production financing and tentative commitments from a director, the principal cast members and other creative personnel. A proposed production schedule and budget are prepared. At the end of this phase, the decision is made whether or not to “greenlight,” or approve for production, the motion picture.

After greenlighting, pre-production of the motion picture begins. In this phase, the producer engages creative personnel to the extent not previously committed, finalizes the filming schedule and production budget, obtains insurance or self insures and secures completion guaranties, if necessary. Moreover, the producer establishes filming locations, secures any necessary studio facilities and stages and prepares for the start of actual filming.

Principal photography, or the actual physical principal production and filming of the screenplay, generally extends on the average from 4 to 16 weeks, with some schedules extending out as much as 52 weeks, depending upon such factors as budget, location, weather and complications inherent in the screenplay. Following completion of principal photography, the motion picture enters what is typically referred to as post-production. In this phase, the motion picture is edited, opticals, dialogue, music and any special effects are added, and voice, effects and music soundtracks and pictures are synchronized. This results in the production of the negative from which release prints of the motion picture are made. Major studios and independent film companies hire editors, composers and special effects technicians on the basis of their suitability for a particular picture.

The production and marketing of theatrical motion pictures at the studio level requires substantial capital. The costs of producing and marketing motion pictures have increased substantially in recent years. These costs may continue to increase in the future at rates greater than normal inflation, thereby increasing the costs to us of our motion pictures. Production costs and marketing costs are generally rising at a faster rate than increases in either domestic admissions to movie theaters or admission ticket prices, leaving all producers of motion pictures more dependent on other media, such as home entertainment, television, and foreign markets.

Distribution. The distribution of a motion picture involves the licensing of the picture for distribution or exploitation in various markets, both domestically and internationally, pursuant to a release pattern. These markets include theatrical exhibition, non-theatrical exhibition (which includes airlines, hotels and armed forces facilities), home entertainment (including rental and sell-through of video and DVD), presentation on television (including pay-per-view, pay, network, syndication and basic cable) and marketing of the other rights in the picture and underlying literary property, which may include publishing, merchandising and soundtracks. The domestic and international markets generally follow the same release pattern, with the starting date of the release in the international market varying from being concurrent with the domestic theatrical release to being as long as nine months afterwards. A motion picture typically is distributed by a major studio or one or more distributors that acquire rights from a studio or other producer in one or more markets or media or a combination of the foregoing.

Both major studios and independent film companies often acquire pictures for distribution through a customary industry arrangement known as a "negative pickup," under which the studio or independent film company agrees before commencement of or during production to acquire from a production company all domestic rights, and in some cases some or all of the foreign rights, to a film upon completion of production, and also acquire completed films, as well as all associated obligations.

The Motion Picture Industry: A More Detailed Overview

The motion picture industry consists of two principal activities: production and distribution. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures throughout the world in a variety of media, including theatrical exhibition, home entertainment, television and other ancillary markets.

The U.S. motion picture industry can be divided into major studios and independent companies, with the major studios accounting for a large majority of the number of theatrical releases. The major studios are The Walt Disney Company (including Buena Vista, Touchstone and Miramax Films), Paramount Pictures Corporation (including Dreamworks), Sony Pictures Entertainment, Inc. (including Columbia Pictures and MGM), Twentieth Century Fox Film Corp., NBC Universal (including Universal Studios and Universal Focus) and Warner Bros. (including Turner, New Line Cinema and Castle Rock Entertainment). The major studios are typically large diversified corporations that have strong relationships with creative talent, exhibitors and others involved in the entertainment industry, and have global film production and distribution capabilities.

Historically, the major studios have produced and distributed the majority of high grossing theatrical motion pictures released annually in the United States. In addition, most of the studios have created or accumulated substantial and valuable motion picture libraries that generate significant revenues. These revenues can provide the major studios with a stable source of earnings that partially offsets the variations in the financial performance of their current motion picture releases and other aspects of their motion picture operations.

The independent companies generally have more limited production and distribution capabilities than do the major studios. While certain independent companies may produce as many films as a major studio in any year, independent motion pictures typically have lower negative costs and are not as widely released as motion pictures produced and distributed by the major studios. Additionally, the independent companies may have limited or no internal distribution capability and may rely on the major studios for distribution and financing. The one exception to this has been Lions Gates Films, a major independent that continued to experience significant growth during 2005.

According to the Motion Picture Association of America, the motion picture industry continues to experience significant growth worldwide over the past decade, although certain aspects of the industry have flattened out in recent years.

Since 1991, box office has been steadily increasing and has grown by almost $6 billion over the past 20 years. After a record breaking year in 2002 which saw the box office numbers increase 13.2% over 2001 to $9.52 billion, the U.S. Box Office continued its momentum, grossing a record breaking $9.54 billion in 2004, a 5% increase over a solid $9.49 billion in 2003. In 2005, U.S. Box Office fell slightly to $8.99 billion, its lowest total since $8.41 billion in 2001 Global box office remained steady at over $23 billion, just shy of the all time high in 2004 of $25 billion and 46% higher than the 2000 mark of $16 billion.

The number of movies released remains on a growth trajectory, with total releases topping another all time high of 563 versus 528 in 2004, a growth rate of 7%. A major component of the annual box office was the performance of blockbusters, which remained comparable to prior years in total box office. A new all time high was set in 2005, with eight movies grossing over $200 million, three more than in 2004, and five more than 2000, a great milestone for the industry. 12 movies grossed between 100 and 199 million dollars each, while 36 films grossed between 50 and 99 million dollars each. In total, 56 films grossed in excess of $50 million dollars during 2005, compared to 64 films which grossed more than $50 million dollars in 2004.

However, U.S. theater admissions continued to decrease, with 1.4 billion tickets sold in 2005, down from 1.54 billion sold in 2004, which represents a 8.7% decline. Nonetheless, movies drew more people than theme parks and sporting events combined, with theme parks selling 334 million tickets and sporting events selling 134.5 million tickets.

U.S. Box Office continued its success with a strong slate of movies released in the summer of 2005, with summer box office receipts reaching $4.49 billion, up 21% compared to summer 2003. Close to half of 2005's box office gross can be attributed to summer releases.

Between 1953 and 2004, a span of 51 years, the U.S. Box Office has gone from $1.34 billion in gross receipts in 1953 to the all time high of $9.54 billion in 2004.

In 2004, 611 films were produced for theatrical release with only 483 films released during the year. In 2003, only 593 films were produced and only 473 films were released theatrically. The average new release earned $20 million at the U.S. Box Office in 2004, as compared to $20.7 million in 2003. Of the 483 films released in 2004, 475 were new releases, while 8 were reissued films. In 2003, of the 473 films released, 459 were new releases with 14 films being reissued.

Worldwide Box Office decreased 7.9% from last year, racking up $23.24 billion in gross receipts. The decrease follows an increase in 2004 which was attributed to box office growth in the international market, which was up 47% after reaching the $10 billion mark for the first time in 2003. International box office continued to benefit from a weak US dollar and strong box office showings from both local and US product.

All of the international regions saw double-digit growth in 2004. Europe, the Middle East and Africa saw an increase of 53%. Asia-Pacific saw an increase of 44%. Latin America's theatrical market increased 14%. Europe, the Middle East and Africa comprised more than half of the $15.7 billion international box office, accounting for 54% of the total with $8.53 billion in receipts. Asia-Pacific box office finished strong with $5.4 billion in 2004. These trends were expected to level off in 2005.

U.S. admissions decreased 8.7% to 1.4 billion in 2005 when compared to 1.54 billion in 2004, both years in the wake of 2002's record 1.64 billion admissions; however 2004 remains the third highest admissions figure of all time, and almost 49 million tickets ahead of 2001.

Worldwide admissions in 2004 increased 11% over 2003 to a record 9.6 billion, breaking the previous record of 9.1 billion admissions in 2002. The growth comes from the international market, which experienced a strong year at the box office with admissions increasing 13% over 2003. Worldwide admissions in 2005 are expected to level off when compared to 2004.

The number of theatrical screens in the U.S. increased 2.2% to 36,594 in 2004. This follows a 3.7% increase in screens between 2003 and 2002. Of the 36,594 screens in the U.S., 35,993 were indoor screens, while 601 were drive-in screens.

Digital screens continued their rapid growth in 2004 with the number of worldwide digital screens climbing 80% to 328 screens. To put this number of digital screens in a better perspective, in 1999 there were 12 digital screens worldwide.

- Between 1987 and 2004, gross domestic box office revenues more than doubled, to a record $9.54 billion in 2004 from $4.3 billion in 1987.

- The increase in gross domestic box office revenue from 2001 to 2002, an increase of 13.2%, was the largest such growth experienced in the industry in over 20 years. 2003 domestic gross held strong, dipping 3% from the record 2002 domestic gross of $9.52 billion, only to be outperformed in 2004 with the record $9.54 billion, a 5% increase over 2003.

- In the past decade, admissions have increased nearly 20%, up 244 million. In 2002, motion picture theatrical attendance in the United States grew at the fastest rate since 1957, increase from 1.487 billion admissions in 2001 to 1.639 billion admissions in 2002, a 10.2% increase. Admissions, like gross domestic box office, held strong in 2003, with 1.57 billion admissions, dipping slightly in 2004 with 1.54 billion admissions.

- Admissions have shown a steady growth over the past decade, with an average increase of 2% per year, despite the many choices in entertainment options.

- In 2004, the number of moviegoers reached its highest point in five years.

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For the past eight years, each U.S. resident attended an average of at least 5 movies per year. In 2004, the average was 5.2, up from 4.4 in 1985. In 2003, the average was 5.4. Admissions per capita reached an all time high of 5.7 in 2002.

· The average annual admission price for 2005 was $6.41, up 3.2% over the previous year.

· The average box office revenue for a new film release was $15.4 million in 2005, compared to $20 million in 2004 and $20.7 million in 2003.

· Of the 549 films released theatrically in 2005, 194 were released by the major studios. 355 were released by all others.

· Between 1968 and 2005, 58% of the top grossing films released theatrically were rated “R”, 21% were rated “PG”, 12% were rated “PG-13”, 7% were rated “G” and 2% were rated “NC-17/X”.

· In 2005, 60% of the top grossing films were rated PG-13, 10% were rated R, 25% were rated PG and 5% were rated G. In 2003, 60% of the top grossing films were rated PG-13, 20% were rated R, 15% were rated PG and 5% were rated G.

· The average budget of a major studio film in 2005 was $60 million. In 1983, the average was $11.9 million. The average marketing budget was $36.2 million in 2005, a 5.2% increase when compared to 2004. In 1983, the average was $5.2 million.

· The total average cost to produce and launch a studio film in 2005 was $96.2 million compared to $96.8 million in 2004. This represents a 0.6% decrease. In 1983, the total average cost to produce and launch a studio film was $17.1 million.

· Between 1993 and 1999, the average budget of a studio film increased 97.7%, from $29.9 million in 1993 to $51.5 million in 1999.

· The average budget of a major studio subsidiary/classic or specialty/independent type film (i.e. Fox Searchlight, New Line, Fine Line, Miramax, Sony Pictures Classics, Lions Gate etc.) in 2005 was $23.5 million, contributing to a 6.4% decrease in combined negative and marketing costs when compared to 2004. The average cost in 2003 was $46.9 million, a 154.9% increase over the 1999 average of $18.4 million and a 37.7% increase over 2002's average of $34 million. The average marketing budget was $15.2 million in 2005.The average marketing budget was $11.4 million in 2004. The average marketing budget was $14.7 million in 2003. In 1999, the average was $6.5 million.

· The total average cost to produce and launch a major studio subsidiary or specialty/independent type film in 2005 was $37.8 million, the lowest since 2000's average of $31.6 million. In 1999, the total average cost to produce and launch a major studio subsidiary or specialty/independent type film was $24.9 million.

· Between 1980 and 2004, there was a 108% increase in the total number of screens. There was a 157% increase in the number of indoor screens and an 83% decrease in the number of drive-in screens.

· Between 2000 and 2004, the total number of theaters in the U.S. decreased by 2.1%. Between 1994 and 2004 the total number of theaters in the U.S. increased by 38%.

· In 2004, there were 6,012 total theaters in the U.S. 5,620 were indoor theaters, 392 were drive-in theaters. In 1980, there were 17,590 total theaters, with 14,029 indoor and 3,561 drive-in theaters.

· In 2004, 39% of the screens were miniplexes (2 to 7 screens), 27% were single screen, 25% were multiplexes (8 to 15 screens) and 9% were megaplexes (16 or more screens).

· In 2004, preliminary estimates show a total of 367,900 employees in the U.S. motion picture industry and associated fields. Of that number, 198,300 are involved in production and services, with 141,000 in the theater and video/DVD rental sector and 28,600 employed in related fields.

· Between 1990 and 2004, the number of cable and satellite television channels increased 372% from 60 cable channels in 1990 to 324 cable and satellite channels in 2004.

· Total rental and sell-through of motion picture video DVDs to dealers in the United States increased from 729.9 million units in 2002 to 1,462.2 billion in 2004, an increase of 83.6%, reflecting the continued growth in DVD use by consumers. Since 2000, this sector has seen an increase of 677% in DVD sales to dealers.

· Total sales of motion picture video cassettes to dealers in the United States decreased from 293.6 million in 2003 to 148.7 million in 2004, a 49.4% decrease, also reflecting the continuing growth in DVD use by consumers. This follows a 39% decrease between 2003 and 2002.

· There are currently over 40,000 titles available on DVD. In 1999, there were 5,000.

· In 2004, 19,999,913 DVD players were purchased by retailers, a 9.1% decrease from 2003, when 21,994,389 were purchased.

· In 2004, 37,000,000 DVD players were sold to U.S. consumers, an increase of 9.8% over 2003, when 33,700,000 were sold.

· The average price of a DVD title in 2004 was $20.52. In 1999 the average was $25.53.

· Factory sales of digital TV sets and displays continue to rise, with 3.9 million units sold in 2003, compared to 2.5 million units sold in 2002. The average unit has dropped in price from $2,433 in 1999 to $1,441 in 2003. Total sales in 2003 reached $6.149 billion.