

Entertainment Games, Inc.
Balance Sheets

	<u>As of</u> <u>June 30,</u> <u>2011</u>	<u>As of</u> <u>June 30,</u> <u>2010</u>	<u>As of</u> <u>December 31,</u> <u>2011</u> <u>(unaudited)</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 328,367	\$ 626,748	\$ 139,123
Accounts receivable, net	143,397	310,931	105,140
Inventory, net	469,871	595,000	331,053
Prepaid and other current assets	136,070	99,233	115,300
Total current assets	<u>1,077,705</u>	<u>1,631,912</u>	<u>690,616</u>
Furniture and equipment, net	10,766	5,866	8,254
Intangibles	1,524,089	24,089	1,459,846
Goodwill	680,000	- 0 -	680,000
Total assets	<u><u>\$ 3,292,560</u></u>	<u><u>\$ 1,661,867</u></u>	<u><u>\$ 2,838,716</u></u>
<u>LIABILITIES AND</u>			
<u>STOCKHOLDERS' EQUITY</u>			
Current liabilities:			
Note payable, current portion	\$ 130,170	\$ - 0 -	\$ 145,895
Accounts payable	841,638	591,868	1,045,391
Unearned revenues	432,581	597,266	347,888
Accrued expenses	377,479	409,043	535,421
Total current liabilities	<u>1,781,868</u>	<u>1,598,177</u>	<u>2,074,595</u>
Note payable, long-term portion	<u>260,341</u>	<u>- 0 -</u>	<u>206,685</u>
Total liabilities	2,042,209	1,598,177	2,281,280
Stockholders' equity			
Preferred stock no par value, (10,000,000 authorized; 875,000 shares of Convertible Preferred issued and outstanding)	704,568	704,568	704,568
Common stock, no par value (40,000,000 shares authorized; 17,711,646, 13,841,573 and 24,259,887 issued respectively and 17,433,746, 13,563,673 and 23,981,987 outstanding, respectively)	12,731,475	10,507,723	14,588,194
Additional paid-in capital	2,090,883	1,926,885	2,173,434
Accumulated deficit	(13,723,638)	(12,522,549)	(16,355,823)
Treasury stock, 277,900 shares, at cost	<u>(552,937)</u>	<u>(552,937)</u>	<u>(552,937)</u>
Total stockholders' equity	<u>1,250,351</u>	<u>63,690</u>	<u>557,436</u>
Total liabilities and stockholders' equity	<u><u>\$ 3,292,560</u></u>	<u><u>\$ 1,661,867</u></u>	<u><u>\$ 2,838,716</u></u>

Entertainment Games, Inc.
Statements of Operations

	Years Ended June 30,		Six Months Ended December 31, (unaudited),	
	2011	2010	2011	2010
Net revenues	\$ 3,083,557	\$ 3,602,172	\$ 1,316,713	\$ 1,543,438
Cost of revenues	1,705,743	1,460,945	674,827	856,150
Gross profit	1,377,814	2,141,227	641,886	687,288
Operating expenses:				
Product development	859,095	930,882	1,259,438	541,342
Selling, general and administrative	1,668,720	1,751,103	1,946,761	764,315
Intangibles impairment (recovery)	- 0 -	(150,000)	- 0 -	- 0 -
Total operating expenses	2,527,815	2,531,985	3,206,199	1,305,657
Operating loss	(1,150,001)	(390,758)	(2,564,313)	(618,369)
Interest (expense) income, net	(7,336)	339	(45,996)	102
Loss before income taxes	(1,157,337)	(390,419)	(2,610,309)	(618,267)
Income tax expense (benefit)	- 0 -	(46,811)	- 0 -	- 0 -
Net loss	<u>(\$ 1,157,337)</u>	<u>(\$ 343,608)</u>	<u>(\$ 2,610,309)</u>	<u>(\$ 618,267)</u>
Net loss per common share:				
- Basic	<u>(\$ 0.08)</u>	<u>(\$ 0.03)</u>	<u>(\$ 0.13)</u>	<u>(\$ 0.05)</u>
- Diluted	<u>(\$ 0.08)</u>	<u>(\$ 0.03)</u>	<u>(\$ 0.13)</u>	<u>(\$ 0.05)</u>
Weighted average common shares outstanding	<u>13,718,943</u>	<u>12,669,436</u>	<u>20,223,556</u>	<u>13,602,460</u>

Entertainment Games, Inc.
Statements of Cash Flows

	<u>Years Ended June 30,</u>		<u>Six Months Ended December 31,</u> <u>(unaudited)</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>OPERATING ACTIVITIES:</u>				
Net loss	(\$1,157,337)	(\$ 343,608)	(\$2,610,309)	(\$ 618,267)
Adjustments to reconcile net loss to net cash used in operating activities:				
Stock-based compensation	104,090	107,616	194,402	50,196
Loss on retirement of accounts payable through issuance of common stock	- 0 -	- 0 -	170,174	- 0 -
Bad debt expense (recovery)	(30,770)	42,121	80,608	(23,270)
Provision for product returns and price markdowns	113,252	11,277	(69,258)	50,114
Provision for inventory obsolescence	290,679	107,765	142,134	146,689
Depreciation and amortization	7,172	14,669	80,261	2,872
Changes in operating assets and liabilities:				
Accounts receivable, net	54,282	(84,502)	26,907	66,047
Inventory, net	(165,550)	(151,213)	(3,316)	(211,948)
Prepaid and other current assets	23,071	32,775	(13,988)	(31,076)
Accounts payable	249,770	34,419	461,330	220,036
Unearned revenues	(164,685)	(33,276)	(84,693)	(70,505)
Accrued expenses	(794)	49,050	157,942	18,817
Net cash used in operating activities	(676,820)	(212,907)	(1,467,806)	(400,295)
<u>INVESTING ACTIVITIES:</u>				
Purchase of internet domain	- 0 -	- 0 -	(10,757)	- 0 -
Purchase of furniture and equipment	(12,072)	(2,057)	(2,750)	- 0 -
Net cash used in investing activities	(12,072)	(2,057)	(13,507)	- 0 -
<u>FINANCING ACTIVITIES:</u>				
Net proceeds from common stock private placement	- 0 -	497,280	1,330,000	- 0 -
Proceeds from issuance of note payable	400,000	- 0 -	- 0 -	- 0 -
Repayments of note payable	(9,489)	- 0 -	(37,931)	- 0 -
Net cash provided by financing activities	390,511	497,280	1,292,069	- 0 -
Net increase (decrease) in cash	(298,381)	282,316	(189,244)	(400,295)
Cash:				
Beginning of period	626,748	344,432	328,367	626,748
End of period	\$ 328,367	\$ 626,748	\$ 139,123	\$ 226,453
Supplemental cash flow information:				
Cash paid for interest	\$ 5,638	\$ - 0 -	\$ 45,005	\$ - 0 -
SUMMARY OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Preferred dividends paid through issuance of common stock shares	\$ 43,752	\$ 43,752	\$ 21,876	\$ 21,876
Acquisition of Heyday Games, Inc. through issuance of common stock shares	\$2,180,000	\$ - 0 -	\$ - 0 -	\$ - 0 -
Retirement of accounts payable through issuance and utilization of common stock shares	\$ - 0 -	\$ - 0 -	\$257,576	\$ - 0 -

