

POKER MAGIC INC  
Form 10-K  
February 29, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
x 1934**

**For the fiscal year ended December 31, 2011**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 0-16686

**POKER MAGIC, INC.**

(Exact name of registrant as specified in its charter)

Minnesota 20-4709758  
(State of incorporation) (I.R.S. Employer Identification No.)

130 West Lake Street, Suite 300 55391  
Wayzata, Minnesota  
(Address of principal executive offices) (Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of Each Exchange on which Registered

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). " Yes  No

The aggregate market value of the voting stock held by persons other than officers, directors and more than 5% shareholders of the registrant as of June 30, 2011 was approximately \$698,000, based on the closing sales price of \$0.12 per share as reported on the OTCBB. As of February 29, 2012, there were 11,480,224 shares of the issuer's common stock, \$0.001 par value, outstanding.

**DOCUMENTS INCORPORATED IN PART BY REFERENCE**

None.

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**PART I**

**ITEM 1**

**BUSINESS**

**Overview**

Poker Magic, Inc. (“Poker Magic,” the “Company” or “we”) is a Minnesota corporation that was incorporated in January 2006. We are a development-stage company focused on promoting and placing our Winner’s Pot Poker game online, into casinos and entertainment facilities country-wide, including those located in Native American tribal lands. We are also seeking to expand the number of products or services that we offer in the gaming industry. We believe that the long-term success of our operations will be determined by our ability to bring new and innovative products, game play and services to the market.

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

On March 10, 2006, we entered into an Asset Purchase Agreement with Select Video, Inc., a Delaware corporation. Under the terms of the Asset Purchase Agreement, we acquired substantially all of the assets of Select Video, Inc., including the following patents and trademarks:

United States patent number 5,839,732, issued on November 24, 1998, entitled “Method of Playing a Casino Poker Game”

United States Trademark (registered on the supplemental register) for the mark “WINNER’S POT POKER,” registration number 2,172,043, dated July 7, 1998, and

United States Trademark (registered on the supplemental register) for the mark “POKER MAGIC,” registration number 3,272,173 dated July 31, 2007.

In consideration of such assets, we issued Select Video an aggregate of 3,022,991 shares of our common stock, and agreed to pay Select Video a five percent royalty on gross proceeds we generate from the sale or license of products using the acquired assets relating to Winner’s Pot Poker.

On December 26, 2007, we entered into a license agreement with Bally’s Park Place, Inc. d/b/a/ Bally’s Atlantic City, permitting Bally’s, on a non-exclusive basis, to use one unit of the Winner’s Pot game on a trial basis at no charge until such time that the New Jersey Casino Control Commission ended the test period for the game. We had earlier (on August 22, 2007) secured the issuance of temporary rules and amendments governing the implementation of Winner’s Pot Poker in Atlantic City casinos. The amendments and rules added Winner’s Pot Poker to the list of authorized table games in New Jersey, governed the physical characteristics of the Winner’s Pot Poker game layout, defined the card deck for use with the Winner’s Pot Poker game, specified the terms of the use of the cards during Winner’s Pot Poker game play, and contained technical proposals governing the operation of Winner’s Pot Poker. We had also earlier obtained a transactional waiver from the New Jersey Casino Control Commission for the licensure requirement applicable to casino service industry suppliers (CSI), which waiver permitted us to legally license to Bally’s Park Place the play of our Winner’s Pot Poker game in Bally’s Atlantic City casinos.

After a successful trial period, we amended our license agreement with Bally’s Park Place on June 26, 2008. Under the amended license agreement, Bally’s Park Place paid us a license fee in the amount of (i) \$475 per month for the right to the use of our Winner’s Pot Poker game in the Atlantic City casinos for a full week during that month, and (ii) \$200 per month for the right to the use of our Winner’s Pot Poker game in the Atlantic City casinos on weekends only during any month. As amended, the license agreement contemplated the licensure of only two Winner’s Pot Poker game units—one for full-week use and the other for weekend-only use. This amendment was entered into after the adoption by the New Jersey Casino Control Commission of temporary regulations governing the rules of the Winner’s Pot Poker game. The amended license agreement was a month-to-month agreement terminable by either party at any time. On November 4, 2010, Bally’s provided notification of their intent to terminate our license agreement effective December 6, 2010. Due to this termination, we have not applied to renew our license with the New Jersey Casino Control Commission which expired in January 2011; however we continue to assess our renewal options as we seek new customers in New Jersey.

## Business Model

We intend to continue to market and license our current table game, “Winner’s Pot Poker,” to online, casino and entertainment facilities and operations for a licensing fee. Depending on the particular features of any gaming products or services that we subsequently develop or acquire, we may license such products or services, or certain aspects thereof. By relying on a licensing model that relies primarily on intellectual property, we hope to maximize potential revenue streams while minimizing the amount of capital required to operate the business. This differs from a more traditional gaming and entertainment product model that focuses on electronic gaming machines or boxes that are subject to more stringent regulatory approval processes, and which is therefore more capital intensive.

In addition, we are actively seeking joint venture opportunities with partners that could incorporate Winner’s Pot Poker into their current product offerings and expand the visibility of our table game into new gaming markets.

Our goal is essentially to capture a small piece of the U.S. gaming market, and research opportunities to break into expanding international markets. Currently, there are approximately 1,500 casinos and gaming facilities, including pari-mutuel, casino-cruises, dog tracks, racinos and horse tracks, in operation in 47 states within the United States (latest information available, *World Casino Directory*). Legalized gaming has undergone tremendous growth and recent declines, with the gaming industry producing gross revenues of \$30.74 billion in 2009 (the most recent year for which American Gaming Association statistics are available).

Gaming in other countries has also generally been increasing. In Canada, for example, over 100 casinos are in operation and this number is presently increasing. Similarly, new gaming establishments within South American countries, particularly Argentina, Chile and Peru, have recently opened. Central American countries are also expanding their gaming operations with the majority of casinos located in Costa Rica, a very popular tourist destination.

Despite the recent year-over-year and historical increases and the expansion of table gaming into new states, the recent poor state of the general economy in the United States has negatively impacted consumer willingness to spend on entertainment and other discretionary items, including gaming, until recently. According to the 2010 American Gaming Report, revenues at more than 480 gaming halls increased nearly 1% in 2010 for the first time in three years but still remained significantly lower than 2007 and 2008 levels. Unfortunately, gaming-related employment in the United States fell during the same time period with an estimated 4,300 jobs lost, or approximately 1.3%, yet still accounted for over 340,000 jobs and \$7.59 billion in direct gaming taxes. Compared to 2009, Nevada’s 2010 casino gaming revenues remained stable while New Jersey posted the largest annual decline. (*AGA State of the States 2011*).

## Products and Services

Winner's Pot Poker is a five-card stud poker game in which a dealer deals each player, and the dealer him or herself, two cards face down and three cards face up. Each player "antes" before the deal. After the first three cards are dealt, each of the players may fold or may place a "bet wager" in an amount equal to the ante. After the fourth card is dealt, each of the remaining players has a choice between folding or placing a second bet, a "double wager," equal to *twice* the ante. The dealer may not fold. After the last card is dealt, the hands are compared and the winning hand takes a predetermined percentage of the total bets and antes made in the course of the game.

In addition, each player is entitled to place an optional bonus bet known as the "jacks plus" bet. The "jacks plus" bet stays in play allowing the player to win even if (s)he has folded her/his poker hand. A player wins a "jacks plus" bonus wager if the player's hand contains a pair of jacks or better regardless of the ultimate winning hand. By placing a "jacks plus" bet, a player has the opportunity to win even if (s)he has folded her/his poker hand earlier in the game.

The game is played with up to six players and a dealer who is a "house" employee, using a standard 52-card "poker" deck. A winning hand is determined using standard poker rankings. In this method for playing the game, after the first three cards are dealt, each player betting places a wager equal to the ante amount for that hand. All players place the same ante amount.

The dealer then deals, to each player and to the dealer, one card from the poker deck. Each player has a choice, after each portion of the poker hand is dealt, to fold (in which case that player's placed wager is surrendered), or to wager an additional amount (in which case (s)he continues playing the game). The dealer then deals a final card from the poker deck to each player, and to him or herself, to complete the round of play. The hands of the dealer and the remaining players are then examined in order to determine the holder of the hand having the highest poker rank.



The player that holds the highest ranking hand is awarded a predetermined percentage of the sum of all wagered amounts. This predetermined percentage may for example be 90%, in which case the remaining 10% is given to the house. Because the dealer is required to wager the full amount at the beginning of the game, and is not given an opportunity to fold, the dealer has no opportunity to use strategy in order to limit the dealer's losses where the dealer holds a bad hand. That limitation is perceived by players in the game as an advantage in their favor. Also, the players' opportunity to win the remaining players' first and second bets also provides impetus for new players to play the game.

## Competition

There are a number of domestic and international businesses which we compete against. We believe that our ability to compete effectively will be based on a number of factors, including but not limited to our ability to:

- Develop or acquire new games or technologies, or rights to new intellectual property that may be used in the development of new games

- Enter into joint ventures that will enhance exposure of our games

- Obtain additional state and other jurisdictional regulatory approvals

- Expand our marketing efforts domestically and internationally

- Obtain floorspace for our games in casinos and entertainment facilities, primarily through marketing and sales and relationship-building efforts

- Increase the number of games and frequency of use at existing customer locations

- Satisfy players with the playing experience of our games, and

- Protect our intellectual property against infringing parties.

We expect that we will face intense competition due to the number of game machine and game play providers, the limited number of casinos and jurisdictions in which they operate, the continuous introduction of new products into the market, and the limited amount of floorspace dedicated to poker. We view our competition generally as any other

business seeking floorspace at a casino or entertainment facility at which gaming activities may be conducted, whether that floorspace be sought for slot machines (or other terminal or box-oriented games) or table games. In this regard, our anticipated competitors include gaming companies such as Shuffle Master and Progressive, and also include the licensors of various intellectual properties such as Multimedia Games. Nearly all of our competitors are larger than us and have significantly greater resources than we do. Competitive factors that we expect will critically affect our business include the continuity of relationships which our marketing and sales agents have at casinos and entertainment facilities, and the popularity of our games and related offerings in general. Finally, we believe that the long-term success of our operations will be determined by our ability to bring new and innovative products, game play and services to the market.

## **Regulation**

To date, our licensing efforts have been focused on entering into such agreements with casinos and gaming establishments in New Jersey, Nevada and Minnesota. On August 22, 2007, the New Jersey Casino Control Commission adopted temporary regulations governing the Winner's Pot Poker game. From January 23, 2009 through July 24, 2010, the New Jersey Casino Control Commission approved our petition to continue conducting business with Bally's while the issuance of the final license was underway. On July 16, 2010, the Commission approved our petition to conduct business as a licensed casino service industry supplier with Bally's Park Place. The license related to our petition expired in January 2011. Due to the loss of our one customer and related revenue, we continue to assess our renewal options. It is, however, extremely difficult to anticipate how much success we will have in our efforts to license our games to establishments other than Bally's Park Place, if any at all, and thereby generate additional revenues since our license agreement with Bally's has terminated.

We have yet to obtain the final licensure required in Nevada and Minnesota, which jurisdictions have been the focus of our marketing efforts to date. In the event we are successful in entering one or more of these markets, we expect that we will require at least the following licenses, registrations and approvals to permit us to license our gaming products to casinos and gaming establishments in the relevant jurisdictions:

Casino service industry (CSI) supplier license issued by the New Jersey Casino Control Commission (described above)

Distribution licenses permitting us to distribute Winner's Pot Poker game units (i.e., table layouts) to casinos and gaming establishments in Nevada, issued by the Nevada State Gaming Control Board

Registration with the Nevada Gaming Commission as a publicly traded company

Distribution licenses permitting us to distribute Winner's Pot Poker game units to casinos and gaming establishments in Minnesota; and

Approval from the applicable Tribal Councils permitting us to distribute Winner's Pot Poker game units to casinos and gaming establishments located in tribal lands in Minnesota.

As we seek to begin operations in other states and, where applicable, Native American tribal lands, we will be subject to additional state and Native American laws and regulations that affect both our general commercial relationships with our customers as well as the products and services provided to them. The following summarizes the material aspects of these laws and regulations.

*New Jersey State Laws and Regulations.* The manufacture, distribution and operation of gaming machines and other aspects of casino gaming in New Jersey are subject to strict regulation pursuant to the New Jersey Casino Control Act and the regulations promulgated thereunder (collectively, referred to as the "New Jersey Act"). The New Jersey Act created the New Jersey Casino Control Commission (the "New Jersey Commission") and the New Jersey Division of Gaming Enforcement (the "New Jersey Division"). The New Jersey Commission is authorized to decide all license applications and other matters and to promulgate regulations under the New Jersey Act. The New Jersey Division is authorized to investigate all license applications, make recommendations to the New Jersey Commission, and to prosecute violations of the New Jersey Act.

Under the New Jersey Act, a company must be licensed as a gaming-related casino service industry (CSI) supplier, or fulfill other requirements, in order to license authorized games to New Jersey casinos. In its discretion, the New Jersey Commission may permit an unlicensed applicant for a CSI license to transact business with New Jersey casinos prior to licensure. First, however, the New Jersey Commission must have determined that the unlicensed entity's application was complete. Then, a casino that desires to transact business with the unlicensed application must obtain the approval of the New Jersey Commission for each business transaction in which they seek to engage by filing a petition with the New Jersey Commission (a "transactional waiver petition"). The transactional waiver petition must demonstrate that good cause exists for granting such petition. The New Jersey Commission is not permitted to grant a transactional waiver petition if the New Jersey Division objects to the petition. The New Jersey Commission has deemed our application complete and has granted us a transactional waiver to conduct business under the current license agreement with Bally's Park Place, Inc.

In connection with our license application, the New Jersey Division conducted an investigation of us as the applicant and our individual qualifiers to determine suitability for licensure. In order for a CSI license to be issued by the New Jersey Commission, we had to demonstrate, by clear and convincing evidence, our good character, honesty and integrity, financial stability, integrity and responsibility.

The New Jersey Commission has broad discretion regarding the issuance, renewal, suspension or revocation of CSI supplier licenses. If our CSI supplier license application is denied, we will not be able to transact business with New Jersey casinos. There is no guarantee that we will be granted an initial license or that, following the issuance of an initial CSI license or any renewal thereof, we will continue to be granted renewals of the license. The New Jersey Commission may impose conditions on the issuance of a license. In addition, the New Jersey Commission has the authority to impose fines or suspend or revoke a license for violations of the New Jersey Act, including the failure to satisfy applicable licensure requirements. A CSI supplier license is issued for an initial period of two years and is thereafter renewable for four-year periods.

The New Jersey Commission approved our petition to conduct business as a licensed casino service industry supplier with Bally's Park Place on July 16, 2010, and this license expired in January 2011. We continue to assess our renewal options as we seek new customers in New Jersey.

*Nevada State Laws and Regulations.* The sale and distribution of casino games in Nevada is subject to: (i) Nevada state laws; (ii) local laws; (iii) the regulations and ordinances of the Nevada Gaming Commission; (iv) the regulations and ordinances of the Nevada State Gaming Control Board; and (v) various county and municipal regulatory authorities (collectively, the "Nevada Gaming Authorities"). The laws, regulations and ordinances of the Nevada Gaming Authorities address the responsibility, financial stability, character and other relevant characteristics of gaming equipment manufacturers, distributors and operators as well as those persons with a financial interest in such gaming operations. The Nevada Gaming Authorities have enacted such laws, regulations and ordinances in order to strictly regulate all persons, locations, practices, and activities related to the operation of licensed gaming devices and establishments in order to prevent cheating and fraudulent practices, and in order to maintain the effective control over the financial practices of licensees of the Nevada Gaming Authorities.

To date, the Company has not registered with the Nevada Gaming Commission as a publicly traded company. Nevertheless, the Company anticipates registering with such Commission and thereafter will likely be required to periodically submit detailed financial and operating reports to the Commission, and to furnish any other information as required by the Commission. In addition, any licenses granted by the Nevada Gaming Authorities will require periodic payments of fees and taxes and will be limited in their transferability. Upon receiving a license from the Nevada Gaming Authorities, our officers, directors and key employees may be required to file applications with the Nevada Gaming Authorities and may be required to receive licenses suitable for them.

Any gaming devices sold or otherwise distributed for use or play in Nevada must be manufactured by licensed manufacturers and distributed or sold by licensed distributors. All gaming devices manufactured for use or play in Nevada must be approved by the Nevada Gaming Commission before distribution or exposure for play. The approval process for gaming devices includes rigorous testing by the Nevada State Gaming Control Board, a field trial, and a determination as to whether the gaming device meets strict technical standards set forth in the regulations of the Nevada Gaming Commission.

Since the Company is not subject to the Nevada Gaming Authorities at this time, we are not aware of any potential objections which the Nevada Gaming Authorities may have to the Company's products. However, upon submission of an application and the requisite paperwork to the Nevada Gaming Authorities, the Company, its products, its officers, directors, and key employees, and anyone having a material relationship or involvement with us or any gaming products may be subject to investigation by the Nevada Gaming Authorities, and any applications for licensure may be denied based upon information discovered during any background investigations. The Nevada Gaming Authorities may deny applications for licensing for any cause they deem reasonable.

*Minnesota State Laws and Regulations.* In order to operate a gambling-related business in Minnesota, a license, issued by the Gambling Control Board is required. The Gambling Control Board is authorized to regulate lawful gambling to ensure it is conducted in the public interest, issue, suspend and revoke licenses to organizations, distributors, and manufacturers, promulgate rules, register gambling equipment, impose civil penalties, and investigate alleged violations. The Gambling Control Board conducts background investigations and criminal investigations relating to lawful gambling and tribal reservation gambling. In order to be issued a license to manufacture or distribute gambling equipment or devices under Minnesota law, the applicant must first submit a complete application to the Gaming and Enforcement Division. Once the Gaming and Enforcement Division successfully completes its investigation of the applicant's personal, business and financial relationships and associations and determines that the applicant meets the requirements for a license, and ensures public safety and integrity in the industry, as required by state law, a license, renewable annually, is issued by the Gambling Control Board.

Currently, we have not submitted an application to the Gaming and Enforcement Division to operate a gambling-related business in Minnesota. Nonetheless, we are aware that, as part of the application process, we will be required to provide detailed financial and operating reports, furnish any other information as required to receive approval for licensure, and prepay fees to cover the related investigation expenses.

*Federal Regulation.* The most important piece of federal legislation potentially affecting our business will be the Indian Gaming Regulatory Act of 1988 (“IGRA”). The Company does not, however, expect this federal gaming law to become a primary concern until such time as the Company attempts to license its games to gaming establishments located in tribal lands, if ever.

Native American gaming is governed by the IGRA, which also established the National Indian Gaming Commission, or NIGC, and granted the NIGC regulatory powers over certain aspects of Native American gaming. The IGRA classifies games that may be played on Native American lands into three categories, each of which is subject to different regulations, as follows:

Class I gaming, which includes traditional Native American social and ceremonial games. Class I gaming is regulated exclusively at the Native American tribal level.

Class II gaming, which includes bingo and, if played at the same location where bingo is offered, pull tabs and other games similar to bingo. Class II gaming is regulated by individual Native American tribes, with the NIGC having oversight of the tribal regulatory process. States that allow bingo and games similar to bingo to be conducted by any other entity or for any other purpose, such as bingo at charities or schools, may not regulate Class II gaming, and therefore receive no tax revenues from income the tribes derive from Class II gaming.

Class III gaming, which includes all other forms of gaming that are not included in either Class I or Class II, including slot machines and most table games. Class III gaming may be conducted only pursuant to contracts called “compacts,” which are negotiated between individual states and individual Native American tribes located within that state, and subsequently approved by the U.S. Bureau of Indian Affairs. The compacts typically include provisions entitling the state to receive revenues at mutually agreed-upon rates from the income a tribe derives from Class III gaming activities.

In the event our Winner’s Pot Poker game is played at Native American gaming facilities, it will be a Class III table game under the IGRA.

*Tribal-State Compacts.* Native American tribes cannot offer Class III gaming unless, among other things, they are parties to compacts with the states in which they operate. The tribal-state compacts typically include provisions entitling the state to receive revenues from the income a tribe derives from Class III gaming activities. Like any written agreement, compacts can be subject to interpretive and other ambiguity and disputes. The terms of particular compacts may affect the desire of subject Native American gaming facilities to accept our games.

*Native American Regulation of Gaming; Sovereign Immunity.* The IGRA requires that Native American tribes adopt and submit for NIGC approval the ordinances that regulate tribes' conduct of gaming. While these ordinances vary from tribe to tribe, they commonly provide for the following:

- Native American ownership of the gaming operation

- Establishment of an independent tribal gaming commission

- Use of gaming net revenues for Native American government, economic development, health, education, housing or related purposes

- Independent audits, including specific audits of all contracts for amounts greater than \$25,000

- Native American background investigations and licenses

- Adequate safeguards for the environment, public health and safety, and

- Dispute-resolution procedures.

Any one or more of these typical ordinances may represent barriers to the entry of our games in Native American gaming facilities or, even if we are able to license gameplay to a Native American gaming facility, may result in a less advantageous stream of licensing revenue from those operations.

In addition, Native American tribes generally enjoy sovereign immunity from suit similar to that of the states and the United States. In order to sue a Native American tribe (or an agency or instrumentality of a Native American tribe), the Native American tribe must have effectively waived its sovereign immunity with respect to the matter in dispute. In any contracts we may enter into with Native American customers, we will likely attempt to provide that any dispute regarding interpretation, performance or enforcement shall be submitted to, and resolved by, arbitration in accordance

with the Commercial Arbitration Rules of the American Arbitration Association and that any award, determination, order or relief resulting from such arbitration is binding and may be entered in any federal court having jurisdiction. Even if we are able to effectively bargain or negotiate for such a provision, we could be precluded from judicially enforcing any rights or remedies against a tribe without a waiver, limited or otherwise, of the tribe's sovereign immunity. These rights and remedies include, but are not limited to, our right to enforce any arbitration decision in our favor.

In general, we have little control over the various licensing, registration and suitability review processes and outcomes in the various states. It is possible that we may not be able to obtain the required or desired licenses, registrations or approvals suitably fast enough to exploit potential opportunities with casinos or gaming establishments. It is also possible that our applications for licenses or renewals, regulations or findings of suitability may be rejected by state regulatory authorities.

## **Research and Development**

To date, we have relied on outside parties for game development. Currently, we do not have employees with experience in game development or have plans to hire employees focused on research and development activities. In addition, we do not presently expect to incur any material capital expenditures during the next 12 months for game development purposes. Accordingly, we plan to develop new gaming products either by utilizing the services of outside developers, sales agents and regulatory and compliance service providers or through the acquisition of existing games or devices. The limited availability of funds may hinder the Company's ability to acquire the rights to new games and market them adequately.

## **Intellectual Property**

We currently own the rights to United States Patent Number 5,839,732, issued on November 24, 1998, that relates to our current Winner's Pot Poker table game. This patent was acquired from Select Video, Inc., a Delaware corporation, pursuant to an Asset Purchase Agreement dated March 10, 2006. In addition, we own a federally registered trademark for "WINNER'S POT POKER," Registration Number 2,172,043, issued on July 7, 1998, which was acquired pursuant to that same agreement. Finally, we also own registered trademarks for "POKER MAGIC" and to "AC (ATLANTIC CITY) STUD POKER," which we similarly acquired pursuant to the Asset Purchase Agreement. Other than the trademark "Poker Magic" which we have adopted as our corporate name, we do not have any current plans for the sale or license of such other trademarks. We do not have any currently pending applications for unissued patents, trademarks or copyrights.



Our business model contemplates our licensing of intellectual-property rights. We expect that this will be accomplished pursuant to terms and conditions of license agreements (or agreements differently captioned but containing licensing provisions). To date, our efforts have been focused on entering into such agreements with gaming establishments in Minnesota and New Jersey, including Bally's Park Place, Inc., which is an affiliate of Harrah's Entertainment. As indicated elsewhere in this filing, we have entered into a License Agreement with Bally Park Place, Inc., a New Jersey corporation, pursuant to which we have granted Bally's Park Place, Inc. a non-exclusive license to use Winner's Pot Poker at two different gaming locations.

The expiration dates of our patent rights vary based on their filing and issuance dates. We intend to continue to actively file for patent protection, where reasonable, within the United States. We expect also to seek protection for our future products by filing for copyrights and trademarks in the United States.

Our ability to enforce our intellectual-property rights is subject to general litigation risks. Typically, when a party seeks to enforce its intellectual-property rights, it is often subjected to claims that the intellectual-property right is invalid, or is licensed to the party against whom the claim is being asserted. We cannot be certain that our intellectual-property rights will not be infringed upon, that others will not develop products in violation of our intellectual-property rights, or that others may assert, rightly or wrongly, that our intellectual-property rights are invalid or unenforceable. In instances where we will rely on trade secrets for the protection of our confidential and proprietary business information, we cannot be certain that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become discovered or independently developed by competitors. In general, defending intellectual-property rights is expensive and consumes considerable time and attention of management. The Company's involvement in intellectual-property litigation would likely have a materially adverse effect on the Company, even if the Company were ultimately successful in defending its intellectual-property rights.

## **Employees**

Currently, we do not have any employees. Mr. Douglas M. Polinsky, the Chief Executive Officer and Chairman of our Board of Directors, and Joseph A. Geraci, II, our Chief Financial Officer and a director of the Company, both serve as consultants to the Company in their officer capacities. We rely on sales and marketing agents and outside professional services on an as-needed basis. We believe that using consultants to perform necessary operational functions is currently more cost effective than hiring full-time employees, and such practice affords us flexibility in directing our resources during our development stage.

## **ITEM 1A RISK FACTORS**

*You should consider the following risk factors, in addition to the other information presented or incorporated by reference into this Annual Report on Form 10-K, in evaluating our business and any investment decision relating to our securities.*

***We have no significant operating history upon which to evaluate our business, and we are subject to all of the risks and uncertainties frequently encountered with start-up enterprises.***

The Company was founded as a Minnesota corporation in January 2006. As a result, we have no significant operating history upon which to evaluate our likelihood of success. To date, we have had only one customer, Bally's Park Place, Inc., license our Winner's Pot Poker game. Bally's began use of one full-week unit of our Winner's Pot Poker game in June 2008 on a month-to-month basis; added a weekend-only unit in early 2009 and then transitioned use of the full-week unit to a second weekend-only unit in July 2009; and then, effective December 2010, terminated their use of both weekend-only units. Due to our lack of a significant operating history, you should consider our business in light of all of the risks and uncertainties inherent in establishing a new business. Our results of operations for the years ended December 31, 2011 and 2010 reflect net losses of \$126,847 and \$148,550, respectively. Ultimately, our operations may not be successful, and we may be unable to generate sufficient revenues or achieve profitability.

***We will need to raise additional capital in the near future to fund our operations, and such capital may not be available to us in sufficient amounts or on acceptable terms.***

We will require additional sources of financing before we can generate revenues needed to sustain operations. In particular, management believes that our current cash is sufficient to continue operations through March 2012. Our operations, as currently conducted and anticipated to be conducted, generate costs related to the marketing of our current products, and ongoing consulting, legal and accounting expenses. Even if we successfully benefit from future opportunities, additional financing may be required to expand or continue being involved in such opportunities.

Additional financing could be sought from a number of sources, including but not limited to additional sales of equity or debt securities, or loans from banks, other financial institutions or affiliates of the Company. We cannot, however, be certain that any such financing will be available on terms favorable to us if at all. If additional funds are raised by the issuance of our equity securities, such as through the issuance of stock, convertible securities, or the issuance and exercise of warrants, then the ownership interest of our existing shareholders will be diluted. If additional funds are raised by the issuance of debt or other equity instruments, we may become subject to certain operational limitations, and such securities may have rights senior to the rights of our common shareholders. If adequate funds are not available on acceptable terms, we may be unable to fund the current operations, expansion or growth of our business.

***We have a history of operating losses and have received a “going-concern” qualification from our independent registered public accounting firm.***

We have incurred operating losses and negative cash flows from operations since inception. As of December 31, 2011, we had an accumulated shareholders’ deficit of approximately \$968,000. We did not generate revenues during 2011 since revenues from our one customer discontinued as of December 2010. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our financial statements included in this Annual Report on Form 10-K do not include any adjustments related to recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should we be unable to continue as a going concern.

Our independent registered public accounting firm included an explanatory paragraph in their report on our financial statements indicating that such deficit accumulated during the development stage raises substantial doubt as to our ability to continue as a going concern. The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered in connection with development stage businesses and the competitive environment in which we will operate. Our ability to achieve profitability is dependent in large part on placing our Winner’s Pot Poker game into numerous gaming establishments for a considerable period of time. There can be no assurance that the Company will successfully market its Winner’s Pot Poker game or operate profitably.

***Our games and any services we may develop may not be accepted, or continue to be accepted, by gaming facilities or consumers.***

Our games, even if successfully developed and tested, will be competing against existing games and products for floorspace in the gaming marketplace. There can be no assurance that gaming facilities will agree to license or continue to license our games for play at their facilities, or license any services we may develop for use in the gaming industry. Moreover, even if successfully developed, tested and marketed to gaming facilities, our games will be competing for player attention against existing games and products that are likely to be more proven in their ability to attract players. There can be no assurance that the gaming-market consumers will accept and play our games or other

games using any services we may provide.

***Before we can offer our games and any gaming-related services in any jurisdiction, applicable gaming authorities in such jurisdiction typically conduct a licensing process that includes a substantive review of our planned games and services as well as background checks and character evaluations of both the Company and its principal shareholders, officers, directors, and key employees. Even if we are able to create and offer commercially viable games or services, we may be unable to ultimately obtain required licenses in any jurisdiction.***

Before our games may be played at any gaming facilities (other than during any testing period permitted by applicable regulations), we and our games, and any gaming-related services we offer, must be licensed by the appropriate gaming authority or authorities. Generally, the process for licensure in the various states is complex and time consuming, and there is no guarantee that we or our games and services will be approved. Furthermore, the financial situation of the Company, as well as the backgrounds of its officers, directors, key employees, and shareholders holding five percent or more of our capital stock will also be reviewed as part of the licensing process. We have little control over the outcome of any license-application process, and our failure or the failure of any of the other above-indicated licensees, for any reason, to obtain licenses that may be necessary for operation in any state or states would likely have a negative impact on our business and prospects. Moreover, any approval of one of our games (or services) does not ensure that we will later be able to receive the necessary licenses for future games or services that we may develop.

***The gaming industry is heavily regulated and changes in regulation by gaming authorities may adversely impact our ability to operate in our existing markets or expand our business.***

The manufacture and distribution of gaming machines, development of systems and the conduct of gaming operations are subject to extensive federal, state, local and foreign regulation by various regulatory authorities. Our ability to continue to operate in certain jurisdictions or our ability to expand into new jurisdictions could be adversely affected by: (i) delays in adopting legislation to permit or expand gaming in new and existing jurisdictions; (ii) unfavorable public referenda, such as referenda to increase taxes on gaming revenues; (iii) unfavorable legislation affecting or directed at manufacturers or gaming operators; (iv) adverse findings of non-compliance with applicable governmental gaming regulations, (v) delays in approvals from regulatory agencies; a limitation, conditioning, suspension or revocation of any of our gaming licenses; (vi) unfavorable determinations or challenges of suitability by gaming regulatory authorities with respect to our officers, directors, significant shareholders or key personnel; (vii) the adoption of new laws and regulations, or the repeal or amendment of existing laws and regulations; and (viii) the legalization or deregulation of other forms of gaming that could attract attention away from our games.

***We lack product and business diversification, which creates a risk that our future revenues and earnings will be susceptible to fluctuations.***

Our primary business activity is the license of our Winner's Pot Poker game to casinos and entertainment facilities. If we are unable to diversify our business products and services through development or acquisition of additional gaming devices or services, we may experience significant fluctuations in our revenues and earnings. Such fluctuations could result from legal or regulatory changes in one or more jurisdictions, changes in economic conditions in the jurisdictions where we license our Winner's Pot Poker game, or result from other risks or adverse events befalling the Company. Our susceptibility to fluctuations or the actual happening of significant fluctuations in our revenues or earnings could cause our Company to be perceived as a less stable and therefore less attractive investment in general, which would likely negatively affect our ability to obtain additional financing an acceptable terms.

***General economic conditions affect our industry, and accordingly, our results of operations could be adversely affected by poor general economic conditions.***

The United States experienced a significant economic slowdown from 2008 through 2010 with national unemployment figures hovering close to 10% and continues to experience high unemployment.

Although Nevada saw modest improvement in gaming revenues in 2010, we believe that the relatively high unemployment, instability in the domestic housing markets and uncertainties about domestic and international economics will continue to inhibit consumers' discretionary spending on entertainment in general and gaming-related activities during 2012. As a consequence, we also expect that casinos and other gaming establishments generally will still be less interested in expanding the range and number of games offered in their venues. If poor or uncertain economic conditions persist, it is possible that our efforts to generate interest in our Company's games will be adversely affected and, ultimately, may not succeed. In such case, we will likely be unable to place our games in the significant number of venues required for us to attain profitability and our entire business and viability may be threatened.

***Our intellectual-property protections may be insufficient to properly safeguard our technology.***

The gaming industry is constantly employing new technologies in both new and existing markets. We rely on patents to protect our products and will continue to apply for patents protecting our technologies. Notwithstanding these safeguards, our competitors may still be able to obtain our technology or imitate our products. Furthermore, others may independently develop products similar or superior to ours.

***The intellectual-property rights of others may prevent us from developing new products or entering new markets.***

The gaming industry is characterized by the rapid development of new technologies, which requires us to continuously introduce new products using these technologies and innovations, as well as to expand into new markets that may be created. Therefore, our success depends in part on our ability to continually adapt our products and systems to incorporate new technologies and to expand into markets that may be created by new technologies. However, to the extent technologies are protected by the intellectual-property rights of others, including our competitors, we may be prevented from introducing products based on these technologies or expanding into markets created by these technologies. If the intellectual-property rights of others prevent us from taking advantage of innovative technologies, our financial condition, operating results or prospects may be harmed.

***We operate in an extremely competitive environment.***

The market for gaming products and services is a difficult one in which to compete since there are a number of established, well-financed and well-known companies that will compete with our planned products. The development of a successful new game or gaming product by a competitor could adversely affect the market demand for our games or services and impair our ability to generate revenues.

***Our inability to protect our intellectual property could impair our ability to compete.***

Our success and ability to compete depend in significant part upon proprietary intellectual property. Our proprietary intellectual property currently consists of certain patent, trademark, copyright and other intellectual-property rights we obtained pursuant to our Asset Purchase Agreement with Select Video. We currently rely and intend to rely in the future on a combination of patent, copyright, trademark, and nondisclosure agreements to protect our proprietary and confidential information. Nevertheless, if any such agreements are breached or our rights are infringed, we may not have adequate remedies available to us.

***We are highly dependent on the services provided by certain executives and key personnel.***

Our success depends in significant part upon the continued service of certain senior management and other key personnel. In particular, the Company is materially dependent upon the services of Douglas M. Polinsky, our Chief Executive Officer and Chairman and Joseph A. Geraci, II, our Chief Financial Officer and a director of the Company. We do not currently have employment agreements with the management of the Company, nor do we expect to enter into employment agreements with any such individuals.

***Our officers and directors, together with certain affiliates, possess significant voting power with respect to our common stock, which could limit your influence on corporate matters.***

Our officers and directors collectively possess beneficial ownership of 5,025,500 shares of our common stock, as noted in our Item 12 table, which currently represents approximately 43.8% of our common stock. As a result, our directors and officers, together with other significant shareholders, will have the ability to greatly influence, if not control, our management and affairs through the election and removal of our directors, and all other matters requiring shareholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our shareholders. Furthermore, this concentrated control will limit the practical effect of your participation in Company matters, through shareholder votes and otherwise.

***Our articles of incorporation grant our board of directors the power to designate and issue additional shares of common and/or preferred stock.***

Our authorized capital consists of 250,000,000 shares of capital stock. Unless otherwise specifically so designated upon issuance, all shares of capital issued by the Company shall be common stock. Pursuant to authority granted by our articles of incorporation, our board of directors, without any action by our shareholders, may designate and issue shares in such classes or series (including other classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute the Company's book value per share.

***Our stock is thinly traded, which may make it difficult to sell shares of our common stock.***

As a new public reporting corporation, our common stock is thinly traded on the OTC bulletin board and we expect that our common stock will generally remain thinly traded. A low trading volume will generally make it difficult for our shareholders to sell their shares as and when they choose. Furthermore, low trading volumes are generally understood to depress market prices. As a result, our shareholders may not always be able to resell shares of our common stock publicly at the time and prices that they feel are fair or appropriate.

***Our common stock qualifies as a “penny stock,” which may make it difficult to sell shares of our common stock.***

Our common stock is categorized as a “penny stock” subject to the requirements of Rule 15g-9 under the Securities and Exchange Act of 1934. Under this rule, broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. Under applicable regulations, our common stock will generally remain a “penny stock” until and for such time as its per-share price is \$5.00 or more (as determined in accordance with SEC regulations), or until we meet certain net asset or revenue thresholds. These thresholds include the possession of net tangible assets (i.e., total assets less intangible assets and liabilities) in excess of \$2,000,000 in the event we have been operating for at least three years or \$5,000,000 in the event we have been operating for fewer than three years, and the recognition of average revenues equal to at least \$6,000,000 for each of the last three years. We do not anticipate meeting any of the foregoing thresholds in the foreseeable future.

The penny-stock rules severely limit the liquidity of securities in the secondary market, and many brokers choose not to participate in penny-stock transactions. As a result, there is generally less trading in penny stocks. If you become a holder of our common stock, you may not always be able to resell shares of our common stock in public broker’s transaction, if at all, at the times and prices that you feel are fair or appropriate.

***We have no intention of paying dividends on our common stock.***

To date, we have not paid any cash dividends and do not anticipate the payment of cash dividends in the foreseeable future. Accordingly, the only return on an investment in shares of our common stock, if any, may occur upon a subsequent sale of such shares.



**ITEM 1B UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2 PROPERTIES**

Office space is currently provided to the Company by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation, beneficially owned by Douglas M. Polinsky, our Chairman and Chief Executive Officer, at 130 West Lake Street West, Wayzata, Minnesota. Great North Capital Consultants, Inc. does not currently charge the Company any rent for the use of the premises. The space being used by the Company is minimal with an immaterial value of rent expense. The premises are adequate for the Company's current and anticipated future use. The Company does not currently lease or own any real property.

**ITEM 3 LEGAL PROCEEDINGS**

None.

**ITEM 4 MINE SAFETY**

Not applicable.

**PART II****ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS  
5 AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is listed for trading on the over-the-counter bulletin board under the symbol "POKR.OB." The transfer agent and registrar for our common stock is Pacific Stock Transfer Company, 4045 South Spencer Street, Suite 403, Las Vegas, NV 89119. The following table sets forth the high and low bid prices for our common stock as reported by the OTC Bulletin Board in 2011 and 2010. The Company's common shares did not begin trading on the OTC Bulletin Board until May 2009. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. Trading in the Company's common stock during the period represented was sporadic, exemplified by low trading volume and many days during which no trades occurred.

|                     | Market Price<br>(High/Low) | Market Price<br>(High/Low) |
|---------------------|----------------------------|----------------------------|
| For the Fiscal Year | 2011                       | 2010                       |
| First Quarter       | \$ 0.06 – 0.91             | \$ 0.02 - 0.25             |
| Second Quarter      | \$ 0.11 – 0.50             | \$ 0.08 – 0.51             |
| Third Quarter       | \$ 0.08 – 0.25             | \$ 0.01 – 0.08             |
| Fourth Quarter      | \$ 0.02 – 0.25             | \$ 0.06                    |

**Holders**

As of the date of this filing, we had approximately 175 holders of record of our common stock.

**Dividends**

We have not paid any dividends on our common stock and do not anticipate paying any such dividends in the near future. Instead, we intend to use any earnings for future acquisitions and expanding our business. Nevertheless, at this time there are no restrictions on our ability to pay dividends on our common stock other than those arising under the Minnesota Business Corporations Act.

**Securities Authorized for Issuance Under Equity Compensation Plans**

As of December 31, 2011, Poker Magic, Inc. had no outstanding options, warrants or other rights to purchase any equity securities of the Company under any equity compensation plan or “individual compensation arrangement” (as defined in Item 201 of Regulation S-K). Furthermore, as of the date of this filing, the Company is not a party to any equity compensation plan, nor is the Company obligated under any “individual compensation arrangement” to issue any options, warrants, rights or other securities. Nevertheless, the Company is not required by applicable state law or the listing standards of any self-regulatory agency (e.g., the OTC Bulletin Board, NASD, AMEX or NYSE) to obtain the approval of its security holders prior to issuing any such compensatory options, warrants or other rights to purchase securities of the Company.

### **Recent Sales of Unregistered Securities**

On March 31, June 30, September 30, and December 31, 2011, we issued shares of common stock to our Chief Executive Officer (aggregating to 236,000 shares) and Chief Financial Officer (aggregating to 236,000 shares) for officer compensation. The Company offered and sold the shares in reliance on the exemption from registration set forth in Sections 4(2) and 4(5) (formerly Section 4(6)) of the Securities Act of 1933. In this regard, the recipients of the shares were (i) “accredited investors” as defined in Rule 501 under the Securities Act and (ii) executive officers of the Company. In addition, all certificates representing the shares offered and sold contained a restrictive legend indicating that such shares constituted “restricted securities” under the Securities Act of 1933.

### **ITEM 6**

### **SELECTED FINANCIAL DATA**

Not applicable.

**ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, filed together with this Form 10-K.*

**Forward-Looking Statements**

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

- Our lack of a significant prior operating history to provide our management with a basis to better evaluate certain likelihoods

- Our need for additional financing

- The significant risk that our game may not be accepted by casinos or gaming establishments or, ultimately, by gaming consumers and enthusiasts

- Our inability to obtain required registrations, licenses and approvals with or from appropriate state gaming authorities

- Changes in legal and regulatory regimes applicable to our business or our games

- Our inability to effectively protect our intellectual property, or

- Our inability, for any reason, to retain our executive management personnel.

The foregoing list is not exhaustive. In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate.

Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Poker Magic, Inc. or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever.

## Results of Operations

| Item  | 2011        | 2010      | % Change<br>(Year Over Year) | % of<br>2011<br>Net<br>Loss | % of<br>2010<br>Net<br>Loss |
|---|-------------|-----------|------------------------------|-----------------------------|-----------------------------|
| Revenues                                      | \$-         | 3,000     | N/A                          | -%                          | (2.1 )%                     |
| Cost of Revenues                              | -           | 12,111    | N/A                          | -%                          | 8.2 %                       |
| Operating Expenses:                           |             |           |                              |                             |                             |
| General Operating Expenses                    | 2,123       | 5,648     | (62.4 )%                     | 1.7 %                       | 3.8 %                       |
| Legal and Accounting Expenses                 | 57,742      | 64,637    | (10.7 )%                     | 45.5 %                      | 43.5 %                      |
| Executive Management Compensation<br>in Stock | 48,000      | 60,000    | (20.0 )%                     | 37.8 %                      | 40.4 %                      |
| Other Income (Expense)                        | (18,982 )   | (9,154 )  | 107.4 %                      | 15.0 %                      | 6.2 %                       |
| Net Loss                                      | \$(126,847) | (148,550) | (14.6 )%                     | N/A                         | N/A                         |

As the table above demonstrates, during 2011 and 2010 we had revenues of \$0 and \$3,000, respectively, and incurred \$0 and \$12,111, respectively, in revenue-related costs. During 2010, we had one contract with one client. That contract terminated in December 2010. Our cost of revenues during 2010 primarily included advertising, amortization, and royalty expenses.

During both 2011 and 2010, we were focused primarily on efforts to (i) ensure temporary regulatory approval and compliance of the Winner's Pot Poker game, and (ii) obtain the agreement of casinos and gaming establishments to provide gaming table space to the Winner's Pot Poker game.

During 2011 and 2010, we incurred selling, general and administrative expenses aggregating to \$107,865 and \$130,285, respectively, a decrease of 17.2%. A discussion of the various components of our general and administrative expenses for 2011 and 2010 appears below.

*General Operating Expenses.* Our general operating expenses, which primarily include consulting, stock transfer fees, travel and miscellaneous office supply expenses, decreased from \$5,648 for the year ended December 31, 2010 to \$2,123 for the year ended December 31, 2011 due to a decrease in consulting fees.

*Legal and Accounting Expenses.* Our legal and accounting expenses decreased from \$64,637 in 2010 to \$57,742 in 2011, or 10.7%. This decrease was due to continued efficiency and cost-saving measures. As we continue to seek gaming regulatory compliance and licenses, prepare and file periodic reports with the SEC under the Securities and Exchange Act of 1934, our Sarbanes-Oxley compliance efforts, and generally seek to comply with the various legal, accounting and governance rules and regulations applicable to public reporting companies, we anticipate our professional fees expenses will constitute the majority of our general operating expenses during fiscal 2012.

*Executive Management Compensation.* Executive management compensation aggregated to \$48,000 of share issuance, for the year ended December 31, 2011 compared to \$60,000 for the year ended December 31, 2010. We presently expect that compensation expense arising from share issuances to our executive management in fiscal 2012 will remain consistent with our fiscal 2011 as we plan to continue to issue shares in lieu of cash payment for the services they render to the Company in their executive capacities.

Interest expense for the year ended December 31, 2011 was \$18,982 compared to \$9,154 for the year ended December 31, 2010. The significant increase in our interest expense in fiscal 2011 is attributed to the short-term notes utilized to finance the Company's operations. We anticipate our interest expense to increase in fiscal 2012 as the short-term notes are renewed and additional notes issued to continue funding the Company's operations while we seek other sources of income and funding.

For the year ended December 31, 2010, our net loss was \$148,550 compared to our net loss of \$126,847 for the year ended December 31, 2011, a decrease of 14.6%. As indicated in the table above, this decrease is attributable to reductions in our selling, general and administrative expenses as previously discussed.

Our officer compensation expense in both fiscal years 2011 and 2010 was in stock issuance. Our consultant expense in both fiscal years 2011 and 2010 was a combination of cash payments and stock issuance. We anticipate that compensation expense in fiscal 2012 for executive management to be in the form of shares and consultant service compensation to be a combination of cash payments and issuance of shares. We also anticipate both compensation

expense for our executive management and consultant service compensation levels in 2012 to remain stable with fiscal 2011 levels. Furthermore, we do not anticipate hiring employees in the near future and expect instead, where necessary or appropriate, to continue to rely on services provided by consultants.

We anticipate that our professional expenses will remain stable during fiscal 2012 as we gained process efficiencies in both 2011 and 2010 which minimized our professional expenses to the extent feasible. Nevertheless, as we seek gaming regulatory compliance and licenses, we anticipate incurring additional expenses relating to the applications, licensing and compliance process. In fact, we expect that any future revenues we gain from licenses obtained in 2012 will be offset by expenses relating to the application, licensing and compliance process.

## Liquidity and Capital Resources

The net loss for 2011 was \$126,847 or \$0.01 per share, compared with a loss in 2010 of \$148,550 or \$0.01 per share.

Summary cash flow data is as follows:

|                                 | Year Ended December 31, |              |
|---------------------------------|-------------------------|--------------|
|                                 | 2011                    | 2010         |
| Cash flows provided (used) by : |                         |              |
| Operating activities            | \$ (65,264 )            | \$ (62,383 ) |
| Investing activities            | -                       | -            |
| Financing activities            | 85,000                  | 60,000       |
| Net increase (decrease) in cash | 19,736                  | (2,383 )     |
| Cash, beginning of period       | 3,081                   | 5,464        |
| Cash, end of period             | \$ 22,817               | \$ 3,081     |

The increase in cash used in operating activities was primarily the result of an increase in interest expense and reduction of our accounts payable offset by a reduction in our officers' compensation and overall operating expenses.

As of December 31, 2011, we had \$22,817 cash on hand and current liabilities of \$217,703, of which \$214,009 is notes and interest payable to Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company) and to Douglas Polinsky and Joseph A. Geraci, II for personal loans to the Company. As of the date of this filing, our management believes we have sufficient capital to continue operations through March 2012. Thereafter, we expect we will require additional capital for operations and to repay related party debt. If we are unable to obtain additional financing when needed, we may be required to abandon our business or our status as a public reporting company.

Management continues to aggressively pursue other business opportunities for the Company including but not limited to the continued marketing of its Winner's Pot Poker game and seeking of additional investment capital. However, there is no guarantee that management will be successful in their endeavors and may be required to abandon our business or our status as a public reporting company.



Presently, we anticipate that additional financing could be sought from a number of sources, including but not limited to additional sales of equity or debt securities, or loans from banks, other financial institutions or affiliates of the Company. We cannot, however, be certain that any such financing will be available on terms favorable to us if at all. If additional funds are raised by the issuance of our equity securities, such as through the issuance of stock, convertible securities, or the issuance and exercise of warrants, then the ownership interest of our existing shareholders will be diluted. If additional funds are raised by the issuance of debt or other equity instruments, we may become subject to certain operational limitations, and such securities may have rights senior to the rights of our common shareholders. If we are unable to obtain additional financing when needed, we may be required to abandon our business or our status as a public reporting company.

Intellectual-property rights and trademarks are the foundation for our product offerings. We currently own the rights to United States Patent Number 5,839,732, issued on November 24, 1998, that relates to our current Winner's Pot Poker table game. This patent was acquired from Select Video, Inc., a Delaware corporation, pursuant to an Asset Purchase Agreement dated March 10, 2006. In addition, we own a federally registered trademark for "WINNER'S POT POKER," Registration Number 2,172,043, issued on July 7, 1998, which was acquired pursuant to that same agreement. Finally, we own registered trademarks for "POKER MAGIC" and to "AC (ATLANTIC CITY) STUD POKER," which we also acquired pursuant to the Asset Purchase Agreement with Select Video. Other than the trademark "Poker Magic" which we have adopted as our corporate name, we do not have any current plans for the sale or license of such other trademarks. We do not have any currently pending applications for un-issued patents, trademarks or copyrights. The expiration dates of our patent rights vary based on their filing and issuance dates.

### **Trends and Uncertainties**

As a development-stage company involved in the gaming business, we believe we can identify certain broad trends in our revenues and expenses, and components thereof. We also believe that the most significant risks and uncertainties surrounding our business relate to revenues and expenses, and regulatory and financing matters. These trends and uncertainties are discussed below.

### *Revenues*

As indicated above, from inception through December 31, 2011 (and presently), the Company has been primarily focused sequentially on the acquisition of the intellectual property forming the basis for its Winner's Pot Poker table game and, thereafter, efforts to ensure at least temporary regulatory compliance of the game and obtain the agreement of casinos and gaming establishments to provide gaming table space to the Winner's Pot Poker game.

These efforts culminated in our license agreement with Bally's Park Place, Inc. d/b/a/ Bally's Atlantic City, permitting Bally's, on a non-exclusive basis, to use one unit of the Winner's Pot Poker game on a trial basis at no charge until such time that the New Jersey Casino Control Commission ended the test period for the game. We entered into that license agreement on December 26, 2007. We had earlier (on August 22, 2007) secured the issuance of temporary rules and amendments governing the implementation of Winner's Pot Poker in Atlantic City casinos. The amendments and rules added Winner's Pot Poker to the list of authorized table games in New Jersey, governed the physical characteristics of the Winner's Pot Poker game layout, defined the card deck for use with the Winner's Pot Poker game, specified the terms of the use of the cards during Winner's Pot Poker game play, and contained technical proposals governing the operation of Winner's Pot Poker. We had also earlier obtained a transactional waiver from the New Jersey Casino Control Commission for the licensure requirement applicable to casino service industry (CSI), which waiver permitted us to legally license to Bally's Park Place, Inc. the play of our Winner's Pot Poker game in Bally's Atlantic City casinos.

After a successful trial period, we amended our license agreement with Bally's Park Place, Inc. on June 26, 2008. Under the amended license agreement, Bally's Park Place, Inc. paid the Company a license fee in the amount of (i) \$475 per month for the right to use our Winner's Pot Poker game in the Atlantic City casinos for up to seven days per week, and (ii) \$200 per month for the right to use of our Winner's Pot Poker game in the Atlantic City casinos on weekends only during that month. On August 22, 2007, the New Jersey Casino Control Commission adopted temporary regulations governing the Winner's Pot Poker game; and on July 16, 2010 the Commission approved our petition to conduct business as a licensed casino service industry supplier with Bally's Park Place. This license expired in January 2011; however we continue to assess our renewal options as we seek new customers in New Jersey. It is extremely difficult to anticipate how much success we will have in our efforts to license our games to establishments other than Bally's Park Place, if any at all, and thereby generate additional revenues since our license agreement with Bally's has terminated.

Since approximately May 2006, we have also been focused on securing Winner's Pot Poker licensing arrangements with various other casinos and gaming establishments. In particular, our management has met with the management or representatives of numerous casinos or gaming establishments during the past year in an effort to secure additional licensing arrangements. To date, our licensing efforts have been primarily focused on entering into such agreements with casinos and gaming establishments in Minnesota, New Jersey and Nevada.

Based on our prior license agreement with Bally's Park Place, Inc., we recognized revenue from operations during fiscal 2008 through fiscal 2010. Given the termination of that license agreement, it is uncertain whether we will be able to generate revenues in the future. Instead, we expect that we must continue to market our game to casinos and gaming establishments that present suitable opportunities for us, and that the most efficient way for us to begin generating more significant revenues will be to consummate a definitive license agreement with Harrah's Entertainment or some other enterprise that involves a wider group of gaming-related affiliates and establishments. For example, Harrah's Entertainment, indirectly (through subsidiaries and other affiliates) operates approximately 40 casinos across the United States. It is extremely difficult to anticipate, however, how much success we will have in our efforts to license our games to gaming establishments and thereby generate additional revenues.

### ***Expenses***

As indicated above under the caption "Results of Operations," our selling, general and administrative expenses overall decreased in 2011 over 2010 and are expected to remain stable in 2012. However, we expect to make applications and seek gaming regulatory compliance and licenses that will increase that component of our selling, general and administrative expenses for 2012. Because our business has a short operating history and our present revenues are limited, in general it is difficult to accurately forecast our expenses and impact of those expenses on our operating results.

### ***Regulation***

Currently, we have yet to obtain the final licensure required in the states of Nevada, New Jersey and Minnesota, which jurisdictions have been the focus of our marketing efforts thus far. In particular, we expect that we will require at least the following licenses, registrations and approvals in the near future to permit us to license our gaming products to casinos and gaming establishments in the relevant jurisdictions:

Casino service industry (CSI) supplier license issued by the New Jersey Casino Control Commission (which license would be more broad and flexible than the current transactional waiver which the Company has thus far secured from the New Jersey Casino Control Commission)

Distribution licenses permitting us to distribute Winner's Pot Poker game units (i.e., table layouts) to casinos and gaming establishments in Nevada, issued by the Nevada State Gaming Control Board

Distribution licenses permitting us to distribute Winner's Pot Poker game units to casinos and gaming establishments in Minnesota; and

Registration with the Nevada Gaming Commission as a publicly traded company.

In addition, we will likely require positive results from suitability reviews (generally focusing on financial stability, honesty, character and integrity) of our executive management and other key personnel or significant shareholders conducted by the Nevada Gaming Commission and similar state agencies in other jurisdictions. We intend to continue working with the state regulatory and tribal council authorities to obtain the above-described and other registrations and licenses that we deem necessary or desirable as market opportunities come to light.

In general, we have little control over the various licensing, registration and suitability review processes and outcomes in the various states. It is possible that we may not be able to obtain required or desired licenses, registrations or approvals suitably fast enough to exploit potential opportunities with casinos or gaming establishments. It is also possible that our applications for licenses, registrations or findings of suitability may be rejected by state regulatory authorities.

### ***Financing***

As discussed above under the caption "Liquidity and Capital Resources," our management believes we have sufficient capital to continue operations through March 2012. Thereafter, we expect we will require additional capital. Our current forecast for financing needs is largely based on our understanding of the expenses we anticipate incurring in our efforts to comply with gaming regulatory and public reporting company disclosure requirements. In this regard, we note that our current forecasts are largely based on our past experience with other enterprises and proposed budgets proposed by our professional consultants. If our actual expenses significantly exceed our present expectations we will likely require additional financing prior to March 2012.

We cannot be certain that any required additional financing will be available on terms favorable to us, if at all. This is especially true in light of the current poor state of the U.S. capital markets and the continuing weakened state of the general economy. If, however, we are able to raise additional funds by the issuance of our equity or equity-linked securities, including through the issuance and exercise of warrants, our existing shareholders will experience dilution of their ownership interest. If additional funds are instead raised by the issuance of debt or other senior or preferred equity instruments such as preferred stock, we may be subject to certain limitations in our operations, and such

securities may have rights senior to those of our holders of common stock. If adequate funds are not available on acceptable terms, we may be unable to expand, develop or enhance products or to respond to competitive pressures. If we are unable to obtain additional financing when needed, we may be required to abandon our business or our status as a public reporting company.

### **Capital Expenditures**

The Company did not have and does not plan to have any material commitments for capital expenditures in 2011 or 2012. Given the Company's business model, investment in capital resources is not required beyond inventory of its game, which is produced in small quantities on an as-needed basis once a license agreement has been executed.

### **Going Concern**

We have incurred operating losses, accumulated deficit and negative cash flows from operations since January 10, 2006 (inception). As of December 31, 2011, we had an accumulated deficit of \$968,226. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our financial statements included in this filing do not include any adjustments related to recoverability and classification of asset carrying amounts, or the amount and classification of liabilities that might result, should we be unable to continue as a going concern. Our ability to continue as a going concern ultimately depends on achieving profitability, producing revenues or raising additional capital to sustain operations and repay related party debt. Although we intend to obtain additional financing to meet our cash needs and to support the revenue-generating process, we may be unable to secure any additional financing on terms that are favorable or acceptable to us, if at all.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, nor are we a party to any contract or other obligation not included on its balance sheet that has, or is reasonably likely to have, a current or future effect on our financial condition.

## **Critical Accounting Policies**

Critical accounting policies are policies that are both most important to the portrayal of the Company's financial condition and results, and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies relate to (a) revenue recognition and (b) the determination of impairment of long-lived and intangible assets.

### Revenue Recognition

Our policy for the recognition of revenue is a critical accounting policy. The Company recognizes revenue from sales under a license agreement when the following four criteria are met: (1) there exists persuasive evidence of an arrangement (e.g., a fully executed license agreement); (2) delivery of the Winner's Pot Poker game, felt and instructions has been made and the licensee thereafter becomes responsible to replace such materials in the event of damage or normal wear and tear; (3) the price is fixed or determinable; and (4) the ability of the Company to collect amounts owed is reasonably assured.

### Determination of Impairment of Long-Lived and Intangible Assets

Our policy regarding the determination of impairment of long-lived and intangible assets is another critical accounting policy. In this regard, our management reviews the Company's long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived or intangible asset may not be recoverable. If indications of impairment are present and the estimated future undiscounted cash flows are less than the carrying value of the asset under scrutiny, the value of that asset will be adjusted appropriately. In December 2010, we performed an impairment analysis that resulted in the write off of the remaining intangible value of \$2,758 due to the loss of our only customer.

### **Use of Estimates**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The application of GAAP requires that we make estimates that affect our 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 revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates

and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates.

**ITEM 7A      QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8                      FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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| Report of Independent Registered Public Accounting Firm on Financial Statements   | 19   |
| Balance Sheets – December 31, 2011 and December 31, 2010  | 20   |
| Statements of Operations – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011                     | 21   |
| Statements of Shareholders' Equity (Deficit) – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011 | 22   |
| Statements of Cash Flows – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011                     | 29   |
| Notes to Financial Statements   | 30   |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

Poker Magic, Inc.

Wayzata, Minnesota

We have audited the accompanying balance sheets of Poker Magic, Inc. (a development stage company) as of December 31, 2011 and 2010, and the related statements of operations, shareholders' equity (deficit) and cash flows for the years then ended and the period from January 10, 2006 (inception) to December 31, 2011. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Poker Magic, Inc. as of December 31, 2011 and 2010 and the results of their operations and cash flows for the years then ended and the period from January 10, 2006 (inception) to December 31, 2011, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 7 to the financial statements, the company has incurred net loss during the development stage and required additional working capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 7 as well. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota

February 29, 2012

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Poker Magic, Inc.

(A Development Stage Company)

Balance Sheets

December 31, 2011 December 31, 2010

## ASSETS

## Current Assets

|      |           |          |
|------|-----------|----------|
| Cash | \$ 22,817 | \$ 3,081 |
|------|-----------|----------|

|                      |        |       |
|----------------------|--------|-------|
| Total Current Assets | 22,817 | 3,081 |
|----------------------|--------|-------|

|              |           |          |
|--------------|-----------|----------|
| Total Assets | \$ 22,817 | \$ 3,081 |
|--------------|-----------|----------|

## LIABILITIES AND SHAREHOLDERS' DEFICIT

## Current Liabilities

|                  |          |          |
|------------------|----------|----------|
| Accounts Payable | \$ 3,075 | \$ 8,823 |
|------------------|----------|----------|

|                 |     |     |
|-----------------|-----|-----|
| Accrued Royalty | 619 | 270 |
|-----------------|-----|-----|

|  |         |        |
|--|---------|--------|
| Notes Payable Related Party – short-term | 213,675 | 94,800 |
|--|---------|--------|

|                  |     |       |
|------------------|-----|-------|
| Interest Payable | 334 | 4,027 |
|------------------|-----|-------|

|                           |         |         |
|---------------------------|---------|---------|
| Total Current Liabilities | 217,703 | 107,920 |
|---------------------------|---------|---------|

## Long-Term Liabilities

|   |   |        |
|---|---|--------|
| Notes Payable Related Party – long-term | - | 11,200 |
|---|---|--------|

|                             |   |        |
|-----------------------------|---|--------|
| Total Long-Term Liabilities | - | 11,200 |
|-----------------------------|---|--------|

|                   |         |         |
|-------------------|---------|---------|
| Total Liabilities | 217,703 | 119,120 |
|-------------------|---------|---------|

## Shareholders' Deficit

|   |        |        |
|---|--------|--------|
| Common Stock, \$.001 par value: Authorized 250,000,000 shares: Issued and outstanding 11,480,224 and 11,008,224 shares. | 11,480 | 11,008 |
|---|--------|--------|

|                            |         |         |
|----------------------------|---------|---------|
| Additional Paid-in Capital | 761,860 | 714,332 |
|----------------------------|---------|---------|

|  |          |            |   |
|--|----------|------------|---|
| Deficit Accumulated During the Development Stage | (968,226 | ) (841,379 | ) |
|--|----------|------------|---|

|                             |          |            |   |
|-----------------------------|----------|------------|---|
| Total Shareholders' Deficit | (194,886 | ) (116,039 | ) |
|-----------------------------|----------|------------|---|

|   |           |          |
|---|-----------|----------|
| Total Liabilities and Shareholders' Deficit | \$ 22,817 | \$ 3,081 |
|---|-----------|----------|

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

Poker Magic, Inc.

(A Development Stage Company)

Statements of Operations

|  | Year Ended<br>December<br>31,<br>2011 | Year Ended<br>December<br>31,<br>2010 | Period<br>from<br>January 10,<br>2006<br>(inception)<br>to<br>December<br>31,<br>2011 |
|--|---------------------------------------|---------------------------------------|---|
| Revenues   | \$-                                   | \$3,000                               | \$12,375  |
| Cost of Revenue                                      | -                                     | 12,111                                | 61,800  |
| Gross Loss   | -                                     | (9,111 )                              | (49,425 )   |
| Operating Expenses:                                  |                                       |                                       |   |
| Selling, General and Administrative                  | 107,865                               | 130,285                               | 891,995   |
| Operating Loss:                                      | (107,865 )                            | (139,396 )                            | (941,420 )  |
| Other Income (Expense)                               |                                       |                                       |   |
| Interest Income                                      | -                                     | -                                     | 2,203   |
| Interest Expense                                     | (18,982 )                             | (9,154 )                              | (29,009 )   |
| Total Other Income (Expense)                         | (18,982 )                             | (9,154 )                              | (26,806 )   |
| Net Loss   | \$(126,847 )                          | \$(148,550 )                          | \$(968,226 )  |
| Basic and diluted net loss per common share          | \$(0.01 )                             | \$(0.01 )                             | \$(0.11 )   |
| Weighted-average number of common shares outstanding | 11,088,816                            | 10,179,662                            | 8,638,025   |

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

Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|   | Common Stock |        | Additional<br>Paid-In | Subscription<br>Receivable | Deficit<br>Accumulated<br>During<br>the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|---|--------------|--------|-----------------------|----------------------------|---|---|
|   | Shares       | Amount | Capital               |                            |   |   |
| Balance at inception<br>January 10, 2006  | -            | \$-    | \$-                   | \$-                        | \$-   | \$-   |
| Issuance of restricted common stock to a founder and a member of the Board of Directors on January 10, 2006 for cash and a subscription receivable for \$0.001 per share, net cash to the company \$1,000 and a subscription receivable for \$1,500 | 2,500,000    | 2,500  | -                     | (1,500 )                   | -   | 1,000   |
| Issuance of common stock for purchase of Select Video intangible assets valued at \$0.001 per share on March 10, 2006   | 3,022,991    | 3,023  | -                     | -                          | -   | 3,023   |
| Issuance of common stock for cash of \$0.25 per share on May 9, 2006  | 100,000      | 100    | 24,900                | -                          | -   | 25,000  |
| Issuance of common stock for liabilities assumed at \$0.25 per share on May 23, 2006  | 60,000       | 60     | 14,940                | -                          | -   | 15,000  |
| Issuance of common stock for cash of \$0.25 per share on May 23, 2006   | 100,000      | 100    | 24,900                | -                          | -   | 25,000  |
| Issuance of common stock for consulting services at \$0.25 per share on May 23, 2006  | 22,000       | 22     | 5,478                 | -                          | -   | 5,500   |

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|  |         |     |        |   |   |        |
|--|---------|-----|--------|---|---|--------|
| Issuance of common stock for cash of \$0.25<br>per share on May 24, 2006 | 100,000 | 100 | 24,900 | - | - | 25,000 |
|--|---------|-----|--------|---|---|--------|

Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Subscription<br>Receivable | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|--|--------------|--------|----------------------------------|----------------------------|--|---|
|  | Shares       | Amount |                                  |                            |  |   |
| Issuance of common stock for cash of \$0.25 per share on August 21, 2006   | 50,000       | \$ 50  | \$ 12,450                        | \$ -                       | \$ -   | \$ 12,500                                     |
| Issuance of common stock for consulting services at \$0.04 per share on December 15, 2006 based on value of services rendered and to be rendered   | 100,000      | 100    | 3,900                            | -                          | -  | 4,000   |
| Issuance of common stock on May 23, 2006 for a sub-scription receivable at \$0.25 per share  | 50,000       | 50     | 12,450                           | (12,500 )                  | -  | -   |
| Net Loss   | -            | -      | -                                | -                          | (43,127 )  | (43,127 )                                     |
| Balance as of December 31, 2006  | 6,104,991    | 6,105  | 123,918                          | (14,000 )                  | (43,127 )  | 72,896  |
| Issuance of common stock for consulting services at \$0.083 per share on January 15, 2007 based on value of services rendered and to be rendered   | 600,000      | 600    | 49,400                           | -                          | -  | 50,000  |
| Issuance of common stock for officers compensation at \$0.096 per share on January 15, 2007 based on value of services rendered and to be rendered | 500,000      | 500    | 47,500                           | -                          | -  | 48,000  |
| Issuance of common stock for cash of \$0.25 per share on July 10, 2007   | 40,000       | 40     | 9,960                            | -                          | -  | 10,000  |
| Issuance of common stock for cash of \$0.25 per share on July 23, 2007   | 40,000       | 40     | 9,960                            | -                          | -  | 10,000  |





Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|  | Common Stock |        | Additional | Subscription | Deficit     | Total         |
|--|--------------|--------|------------|--------------|-------------|---------------|
|  | Shares       | Amount | Paid-In    | Receivable   | Accumulated | Shareholders' |
|  |              |        | Capital    |              | During      | Equity        |
|  |              |        |            |              | the         | (Deficit)     |
|  |              |        |            |              | Development |               |
|  |              |        |            |              | Stage       |               |
| Issuance of common stock for payment of note at \$0.2354 per share on July 26, 2007  | 20,000       | \$ 20  | \$ 4,689   | \$ -         | \$ -        | \$ 4,709      |
| Payment of subscription receivable on July 27, 2007  | -            | -      | -          | 1,500        | -           | 1,500         |
| Issuance of common stock for consulting services at \$0.083 per share on August 1, 2007 based on value of services rendered and to be rendered | 100,000      | 100    | 8,200      | -            | -           | 8,300         |
| Issuance of common stock for consulting services at \$0.077 per share on August 1, 2007 based on value of services rendered                    | 65,000       | 65     | 4,935      | -            | -           | 5,000         |
| Issuance of common stock for consulting services at \$0.04 per share on August 1, 2007 based on value of services rendered                     | 25,000       | 25     | 975        | -            | -           | 1,000         |
| Payment of subscription receivable on October 17, 2007   | -            | -      | -          | 12,500       | -           | 12,500        |
| Issuance of common stock for consulting services at \$0.25 per share on November 26, 2007  | 50,000       | 50     | 12,450     | -            | -           | 12,500        |
|  | 40,000       | 40     | 9,960      | -            | -           | 10,000        |

Issuance of common stock for cash of \$0.25 per share on December 21, 2007

|  |        |    |        |   |   |        |
|--|--------|----|--------|---|---|--------|
| Issuance of common stock for cash of \$0.25 per share on December 22, 2007 | 80,000 | 80 | 19,920 | - | - | 20,000 |
|--|--------|----|--------|---|---|--------|

Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|   | Common Stock |        | Additional<br>Paid-In | Subscription<br>Receivable | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|---|--------------|--------|-----------------------|----------------------------|--|---|
|   | Shares       | Amount | Capital               |                            |  |   |
| Net Loss  | -            | \$-    | \$-                   | \$ -                       | \$ (199,574 )  | \$ (199,574 )                                 |
| Balance as of December 31, 2007   | 7,664,991    | 7,665  | 301,867               | -                          | (242,701 )   | 66,831  |
| Issuance of common stock for cash of \$0.25 per share on January 10, 2008   | 100,000      | 100    | 24,900                | -                          | -  | 25,000  |
| Issuance of common stock for cash of \$0.25 per share on May 20, 2008   | 50,000       | 50     | 12,450                | -                          | -  | 12,500  |
| Issuance of common stock for cash of \$0.25 per share on May 28, 2008   | 1,000,000    | 1,000  | 249,000               | -                          | -  | 250,000                                       |
| Issuance of common stock for consulting services at \$0.10 per share on August 26, 2008 based on value of services rendered and to be rendered  | 200,000      | 200    | 19,800                | -                          | -  | 20,000  |
| Issuance of common stock for consulting services at \$0.25 per share on August 26, 2008 based on value of services rendered                     | 10,000       | 10     | 2,490                 | -                          | -  | 2,500   |
| Issuance of common stock for consulting services at \$0.083 per share on August 26, 2008 based on value of services rendered and to be rendered | 120,000      | 120    | 9,880                 | -                          | -  | 10,000  |
| Issuance of common stock for consulting services at \$0.25 per share on August 26, 2008 based on value of                                       | 50,000       | 50     | 4,950                 | -                          | -  | 5,000   |

services rendered

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Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|   | Common Stock |        | Additional<br>Paid-In | Subscription<br>Receivable | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|---|--------------|--------|-----------------------|----------------------------|--|---|
|   | Shares       | Amount | Capital               |                            |  |   |
| Issuance of common stock for consulting services at \$0.25 per share on December 16, 2008 based on value of services rendered         | 40,400       | \$ 40  | \$ 10,060             | \$ -                       | \$ -   | \$ 10,100                                     |
| Officers compensation expense as contributed capital  | -            | -      | 38,000                | -                          | -  | 38,000  |
| Issuance of common stock for officers compensation at \$0.25 per share on December 31, 2008 based on value of services rendered       | 32,000       | 32     | 7,968                 | -                          | -  | 8,000   |
| Net Loss  | -            | -      | -                     | -                          | (282,719 )   | (282,719 )                                    |
| Balance as of December 31, 2008   | 9,267,391    | 9,267  | 681,365               | -                          | (525,420 )   | 165,212                                       |
| Redemption of common stock from a non-affiliated shareholder at \$0.25 per share on February 25, 2009 based on original issuance cost | (366,667 )   | (367 ) | (91,300 )             | -                          | -  | (91,667 )                                     |
| Officers compensation expense as contributed capital on March 31, 2009  | -            | -      | 12,000                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.03 per share on June 30, 2009 based on value of services rendered           | 600,000      | 600    | 17,400                | -                          | -  | 18,000  |

|   |        |    |       |   |   |       |
|---|--------|----|-------|---|---|-------|
| Issuance of common stock for consulting services at \$0.03 per share on June 30, 2009 based on value of services rendered | 62,500 | 63 | 1,812 | - | - | 1,875 |
|---|--------|----|-------|---|---|-------|

Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|  | Common Stock |        | Additional<br>Paid-In | Subscription<br>Receivable | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|--|--------------|--------|-----------------------|----------------------------|--|---|
|  | Shares       | Amount | Capital               |                            |  |   |
| Issuance of common stock for officers compensation at \$0.06 per share on September 30, 2009 based on value of services rendered | 200,000      | \$ 200 | \$ 11,800             | \$ -                       | \$ -   | \$ 12,000                                     |
| Issuance of common stock for officers compensation at \$0.06 per share on December 31, 2009 based on value of services rendered  | 200,000      | 200    | 11,800                | -                          | -  | 12,000  |
| Net Loss   | -            | -      | -                     | -                          | (167,409 )   | (167,409 )                                    |
| Balance as of December 31, 2009  | 9,963,224    | 9,963  | 644,877               | -                          | (692,829 )   | (37,989 )                                     |
| Issuance of common stock for officers compensation at \$0.10 per share on March 31, 2010 based on value of services rendered     | 120,000      | 120    | 11,880                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.08 per share on June 30, 2010 based on value of services rendered      | 150,000      | 150    | 11,850                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.06 per share on September 30, 2010 based on value of services rendered | 200,000      | 200    | 11,800                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.06 per share on  | 400,000      | 400    | 23,600                | -                          | -  | 24,000  |

December 31, 2010 based on value of  
services rendered

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Poker Magic, Inc.

(A Development Stage Company)

Statements of Shareholders' Equity (Deficit)

For the years ended December 31, 2011 and 2010 and for the

Period from January 10, 2006 (inception) to December 31, 2011

|  | Common Stock |        | Additional<br>Paid-In | Subscription<br>Receivable | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Shareholders'<br>Equity<br>(Deficit) |
|--|--------------|--------|-----------------------|----------------------------|--|---|
|  | Shares       | Amount | Capital               |                            |  |   |
| Issuance of common stock for consulting services at \$0.06 per share on December 31, 2010 based on value of services rendered    | 175,000      | \$ 175 | \$ 10,325             | \$ -                       | \$ -   | \$ 10,500                                     |
| Net Loss   | -            | -      | -                     | -                          | (148,550 )   | (148,550 )                                    |
| Balance as of December 31, 2010  | 11,008,224   | 11,008 | 714,332               | -                          | (841,379 )   | (116,039 )                                    |
| Issuance of common stock for officers compensation at \$0.50 per share on March 31, 2011 based on value of services rendered     | 24,000       | 24     | 11,976                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.12 per share on June 30, 2011 based on value of services rendered      | 100,000      | 100    | 11,900                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.25 per share on September 30, 2011 based on value of services rendered | 48,000       | 48     | 11,952                | -                          | -  | 12,000  |
| Issuance of common stock for officers compensation at \$0.04 per share on December 31, 2011 based on value of services rendered  | 300,000      | 300    | 11,700                | -                          | -  | 12,000  |
| Net Loss   | -            | -      | -                     | -                          | (126,847 )   | (126,847 )                                    |

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Balance as of December 31, 2011            11,480,224   \$11,480   \$761,860   \$   -   \$ (968,226 ) \$ (194,886 )

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

Poker Magic, Inc.

(A Development Stage Company)

## Statements of Cash Flows

|   | Year Ended<br>December 31,<br>2011 | Year Ended<br>December 31,<br>2010 | Period from January 10,<br>2006 (inception) to<br>December 31, 2011 |
|---|------------------------------------|------------------------------------|---|
| Cash flows from operating activities:                                       |                                    |                                    |   |
| Net loss  | \$ (126,847 )                      | \$ (148,550 )                      | \$ (968,226 )   |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                    |                                    |   |
| Amortization of intangible assets   | -                                  | 7,582                              | 38,599  |
| Impairment of inventory and intangible assets                               | -                                  | 4,379                              | 4,379   |
| Common stock issued for services  | -                                  | -                                  | 6,500   |
| Consulting service expense paid in stock                                    | -                                  | 10,500                             | 134,341   |
| Officers compensation expense paid in stock                                 | 48,000                             | 60,000                             | 206,000   |
| Officers compensation expense as contributed capital                        | -                                  | -                                  | 50,000  |
| Changes in operating assets and liabilities:                                |                                    |                                    |   |
| Inventory   | -                                  | -                                  | (871 )  |
| Prepaid expense   | -                                  | -                                  | 5,434   |
| Accounts payable  | (5,748 )                           | (4,623 )                           | 3,075   |
| Accrued royalty   | 349                                | 150                                | 619   |
| Interest payable  | 18,982                             | 9,154                              | 29,009  |
| Deferred revenue  | -                                  | (975 )                             | -   |
| Net cash used in operating activities                                       | (65,264 )                          | (62,383 )                          | (491,141 )  |
| Cash flows from investing activities:                                       |                                    |                                    |   |
| Acquisition of Select Video assets  | -                                  | -                                  | (17,000 )   |
| Net cash used in investing activities                                       | -                                  | -                                  | (17,000 )   |
| Cash flows from financing activities:                                       |                                    |                                    |   |
| Proceeds from subscription receivable                                       | -                                  | -                                  | 14,000  |
| Proceeds from issuance of common stock                                      | -                                  | -                                  | 426,000   |
| Redemption of common stock  | -                                  | -                                  | (91,667 )   |
| Proceeds from note payable related party                                    | 85,000                             | 60,000                             | 185,000   |
| Payment of short-term debt  | -                                  | -                                  | (2,375 )  |
| Net cash provided by financing activities                                   | 85,000                             | 60,000                             | 530,958   |
| Net increase (decrease) in cash   | 19,736                             | (2,383 )                           | 22,817  |

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|                               |           |          |           |
|-------------------------------|-----------|----------|-----------|
| Cash, beginning of the period | 3,081     | 5,464    | -         |
| Cash, end of the period       | \$ 22,817 | \$ 3,081 | \$ 22,817 |

Non-cash investing and financing activities:

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

|   |        |       |          |
|---|--------|-------|----------|
| Inventory   | \$ -   | \$ -  | \$ 750   |
| Intangible Asset                                  | -      | -     | 24,357   |
| Accounts Payable                                  | -      | -     | (32,000) |
| Note Payable                                      | -      | -     | (7,084)  |
| Accrued interest converted into note payable      | 22,675 | 6,000 | 28,675   |
| Stock issued in lieu of cash for note payable     | -      | -     | 19,709   |
| Stock issued in lieu of cash for prepaid services | -      | -     | 175,400  |
| Stock subscriptions received for common stock     | -      | -     | 14,000   |

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

Poker Magic, Inc.

(A Development Stage Company)

Notes to Financial Statements

December 31, 2011 and 2010

## **NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Description of operations and basis of presentation***

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

### ***Use of estimates***

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

### ***Cash deposits***

The Company maintains its cash balances in financial institutions. Cash on deposit in excess of FDIC and similar coverage is subject to the usual banking risk of funds in excess of those limits.

### ***Inventory***

Poker table felt inventory was valued using the lower of cost (first-in, first-out method) or market. For the year ended December 31, 2010, the Company reported an impairment expense of \$1,621 which is included in cost of revenue on the Statement of Operations. At December 31, 2011 and 2010, the inventory was valued at \$0.

### ***Fair value of financial instruments***

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

### ***Intangible assets***

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video, Inc. Three patents were acquired as a part of the March 10, 2006 purchase. The patents are stated at cost and are amortized on a straight-line basis over 60 months. Amortization expense was \$0, \$7,582 and \$38,599 for the years ended December 31, 2011 and 2010 and the period from January 10, 2006 (inception) to December 31, 2011, respectively. In December 2010, the Company wrote-off the remaining intangible asset value of \$2,758 due to the loss of the Company's only customer. The expense is included in cost of revenue on the Statement of Operations.

### ***Impairment of long-lived assets***

Management reviews the Company's long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the asset's value will be adjusted appropriately.

### ***Income taxes***

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.



**Revenue recognition**

Revenue from sales under a license agreement is recognized when the following four criteria are met: 1) persuasive evidence of an arrangement exists (fully executed license agreement); 2) delivery of the Winner's Pot Poker game, felt and instructions have been rendered and for which the licensee is responsible to replace either through damage or normal wear and tear; 3) the price is fixed or determinable; and 4) collectability under the license agreement is reasonably assured. All revenue for the year ended December 31, 2010 and the period from January 10, 2006 (inception) to December 31, 2011 was generated from one customer. Revenues generated from the licensing of the Winner's Pot Poker game in New Jersey are not subject to sales and use tax although filing of an annual return is required and completed.

**Advertising**

Advertising costs are charged to expense when incurred. Advertising costs were \$0, \$0 and \$14,964, respectively, for the years ended December 31, 2011 and 2010 and the period from January 10, 2006 (inception) to December 31, 2011.

**NOTE 2—NET LOSS PER COMMON SHARE**

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

|   | Year Ended<br>December 31, 2011 | Year Ended<br>December 31, 2010 | Period from January<br>10, 2006 (inception)<br>to December 31, 2011 |
|---|---------------------------------|---------------------------------|---|
| Numerator: Net Loss   | \$ (126,847                     | ) \$ (148,550                   | ) \$ (968,226   |
| Denominator: Weighted-average number of common shares outstanding | 11,088,816                      | 10,179,662                      | 8,638,025   |
| Basic and diluted net loss per common share                       | \$ (0.01                        | ) \$ (0.01                      | ) \$ (0.11  |

At December 31, 2011 and 2010, the Company did not have any options or warrants outstanding or any other dilutive common equivalent shares.



**NOTE 3—COMMITMENTS AND CONTINGENCIES**

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

At December 31, 2011 and December 31, 2010, \$619 and \$270 were owed to Select Video under this agreement.

**NOTE 4—SHAREHOLDERS' DEFICIT**

*Common stock*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 28, 2008, the Company raised cash of \$250,000 at \$0.25 per share through the issuance of 1,000,000 shares of common stock together with a warrant, classified as permanent equity, to purchase up to 1,000,000 shares of

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common stock, which was immediately exercisable. The warrants did not possess any embedded derivative features. The exercise price was \$0.25 per share if purchased within six months of issuance. The exercise price increased to \$0.425 for months seven through twelve (after the date of issuance) and to \$0.50 after twelve months. The warrant expired on May 27, 2010.

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

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

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

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

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

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

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

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

On February 25, 2009, the Company redeemed, at the request of a non-affiliate shareholder, 366,667 shares of common stock held by a single shareholder at a price of \$0.25 per share, for a total amount of \$91,667, which was the price originally paid for the redeemed shares.

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

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

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

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

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

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

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

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

On May 27, 2010, 1,000,000 warrants to purchase additional common stock at \$0.50 per share expired.

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

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

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

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

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

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

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

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

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

On December 31, 2011, the Company issued 300,000 shares of common stock for officer compensation with a fair value of \$12,000.

At December 31, 2011, a total of 11,480,224 shares of common stock were issued and outstanding.

#### **NOTE 5—INCOME TAXES**

The Company is subject to the accounting standard for uncertainty in income tax provisions. As such, the Company is required to recognize in the financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Interest and penalties are expensed as incurred as operating expenses. The tax years that remain subject to examination by major tax jurisdictions currently are Federal 2009-2011 and State of Minnesota 2009-2011. The net operating loss carryforwards are subject to examination until they expire.

At December 31, 2011, the Company had federal and state net operating loss carryforward of approximately \$919,000 available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2027 if not used before such time to offset future taxable income or tax liabilities. The Company's deferred tax asset is the net operating loss carryforward and the difference in patent amortization expense. The Company has established a valuation allowance of \$390,000 and \$328,000 at December 31, 2011 and 2010, respectively, against its deferred tax assets due to uncertainty surrounding the realization of such assets. The change in valuation allowance for the years ended December 31, 2011 and 2010 was \$62,000 and \$51,000, respectively, and for the period ended January 10, 2006 (inception) to December 31, 2011 was \$390,000. Current and future changes in the stock ownership of the Company may place limitations on the use of these net operating loss carryforwards.

Reconciliation between the federal statutory rate and the effective tax rates is as follows:

|                                     | Year Ended<br>December 31, 2011 |    | Year Ended<br>December 31, 2010 |    | Period from January 10, 2006<br>(inception) to December 31, 2011 |    |
|-------------------------------------|---------------------------------|----|---------------------------------|----|--|----|
| Federal statutory tax rate          | (34.0                           | )% | (34.0                           | )% | (34.0  | )% |
| State taxes, net of federal benefit | (6.0                            | )  | (6.0                            | )  | (6.0   | )  |
| Valuation Allowance                 | 40.0                            |    | 40.0                            |    | 40.0   |    |
| Effective tax rate                  | 0.0                             | %  | 0.0                             | %  | 0.0  | %  |



**NOTE 6—NOTES PAYABLE RELATED PARTY – SHORT-TERM**

On October 19, 2010, Douglas Polinsky and Joseph A. Geraci, II, both officers of the Company, each loaned the Company \$5,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provided for simple interest to accrue on the unpaid principal balance of the promissory notes at the rate of 12% per annum, and require that accrued interest be paid on a monthly basis until October 18, 2011, at which time the entire unpaid principal balance of \$5,000 together with the unpaid accrued interest of \$569 (accrued at 12% per annum) became due and payable. Messrs. Polinsky and Geraci both agreed to renew the unsecured term promissory notes and interest payable totalling \$11,139 on September 30, 2011 for a term of six months. The promissory notes have the same terms as those contained in the original promissory notes and have a maturity date of March 31, 2012.

From July 30, 2009 to July 15, 2011, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company a total of \$150,000 under terms and conditions set forth in unsecured term promissory notes. The promissory notes provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and required that accrued interest be paid on a monthly basis until maturity, at which time the entire unpaid principal balance of the promissory note became due. On September 30, 2011, Lantern Advisers and the Company consolidated these promissory notes and the accrued but unpaid interest into a new promissory note in the amount of \$172,364. The new promissory note had the same terms as those contained in the original promissory notes and had a maturity date of March 31, 2012. On December 30, 2011, Lantern Advisers, LLC loaned the Company an additional \$25,000 under terms and conditions set forth in an unsecured term promissory note. The Company consolidated this promissory note with the promissory note referenced above with a principal amount of \$172,364 and unpaid interest of \$5,172 for a new promissory note in the amount of \$202,536. The new unsecured promissory note has the same terms as those contained in the original promissory notes and has a maturity date of June 30, 2012.

Total short-term related party notes at December 31, 2011 and December 31, 2010 were \$213,675 and \$94,800, respectively, and provided working capital for the Company. Total long-term related party notes at December 31, 2011 and December 31, 2010 were \$0 and \$11,200, respectively. The Company incurred interest expense associated with the related party notes of \$18,982, \$9,154 and \$29,009 for the years ended December 31, 2011 and 2010 and for the period from January 10, 2006 (inception) to December 31, 2011, respectively.

**NOTE 7— GOING CONCERN; MANAGEMENT’S PLAN TO FINANCE WORKING CAPITAL NEEDS**

The Company incurred net losses of \$126,847, \$148,550, and \$968,226 for the years ended December 31, 2011 and 2010 and for the period from January 10, 2006 (inception) to December 31, 2011, respectively, along with negative cash flows from operating activities. The Company anticipates increased expenditures in 2012 relating to the marketing its Winner’s Pot Poker game, additional regulatory approvals, costs related to potential mergers and acquisitions in similar or diverse industries, and legal and accounting expenses to comply with the requirements of a

public reporting company. Because of the anticipated increase in expenditures and continued lack of customers or sources of revenue, the Company expects their net loss in fiscal 2012 to exceed the net loss in fiscal 2011. As of the date of filing of this report, the Company had \$22,817 cash on hand and current liabilities of \$234,400, the majority of which is short-term notes and interest payable. The Company estimates that it will need approximately \$95,000 of cash over the next 12 months to continue operations, at their current level, through 2012.

## **ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A*T* CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

As of December 31, 2011, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer recognized the additional risks to an effective internal control environment with a limited accounting staff and the inability to fully segregate all duties within our accounting and financial functions, including the financial reporting and quarterly close process. Management has concluded that, with certain oversight controls that are in place and the duties we have been able to successfully segregate, the remaining risks associated with the lack of segregation of duties are not sufficient to justify the costs of potential benefits to be gained by adding additional employees given our development stage, the limited scope of our operations, and the number of business transactions we currently process, nor do these remaining risks rise to the level of a material weakness. Management intends to periodically reevaluate this situation and continue to assess ways in which duties can be further segregated as our business evolves. Based on these evaluations, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures are effective as of December 31, 2011.

### **Report of Management on Internal Control Over Financial Reporting**

Board of Directors and Shareholders  
Poker Magic, Inc.

The management of Poker Magic, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934. The Company’s internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company’s management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2011 based on the framework set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2011. Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm, is not required to issue, and thus has not issued, an attestation report on the Company’s internal control over

financial reporting as of December 31, 2011.

/s/ Douglas M. Polinsky  
*Chairman, President and Chief Executive Officer*

/s/ Joseph A. Geraci, II  
*Chief Financial Officer*

### **Changes in Internal Controls**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B**

### **OTHER INFORMATION**

None.

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**PART III**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Directors, Executive Officers, Promoters, and Control Persons**

| Name                 | Age | Positions                                       |
|----------------------|-----|---|
| Douglas M. Polinsky  | 52  | Chairman, Chief Executive Officer and President |
| Joseph A. Geraci, II | 42  | Director and Chief Financial Officer            |

*Douglas M. Polinsky* co-founded Poker Magic, Inc. in January 2006 and since that time has been the Chairman and Chief Executive Officer of the Company. Since 1994, Mr. Polinsky has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company which he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also make direct investments into public and private companies. Since 2007, Mr. Polinsky has been an independent Director of Wizzard Software Corporation, a Pennsylvania-based company specializing in speech recognition technology. Mr. Polinsky is a member of the Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada at Las Vegas.

*Joseph A. Geraci, II* was a co-founder of Poker Magic, Inc. in January 2006 and has been a director and the Chief Financial Officer of the Company since that time. Since February 2002 through the present time, Mr. Geraci has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private, in business development. In March 2005, Mr. Geraci also became the managing member of Mill City Advisors, LLC, which served as the general partner of Mill City Ventures, LP, a Minnesota limited partnership that invested in both private and public companies until its dissolution in 2010. In 2010, Mill City Advisors, LLC formed and became the general partner of Mill City Ventures II, LP. From January 2005 until August 2005, Mr. Geraci served as the Director of Finance for Gelstat Corporation, a purveyor of homeopathic remedies, based in Bloomington, Minnesota. From 2000 until December 2004, Mr. Geraci was a broker with Oak Ridge Financial Services, Inc., a Minneapolis-based broker-dealer firm.

Under the Company's bylaws, the directors serve for indefinite terms expiring upon the next annual meeting of the Company's shareholders.

In August 2003, the National Association of Securities Dealers (NASD) found in an administrative hearing that Mr. Geraci, while employed by and affiliated with a NASD member, had violated NASD Conduct Rule 2110 and SEC Rule 10b-5 in August 1999, and barred him from associating with any NASD member in the future.

### **Code of Ethics**

On August 5, 2008, our Board of Directors adopted a Code of Ethics for Management and Non-Management Employees, which includes our Company's principal executive officer and principal financial officer, or persons performing similar functions, as required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. Our Code of Ethics is available on our website, [www.pokermagicinc.com](http://www.pokermagicinc.com), and we will provide a copy, without charge, to any shareholder upon written request made to Poker Magic, Inc., Attention: Chief Executive Officer, 130 West Lake Street, Suite 300, Wayzata, MN 55391.

### **Changes to Board of Director Nomination Procedures**

The Company has not had any material changes to the procedures for shareholder nominations of candidates to serve on our Board of Directors during the fiscal year ended December 31, 2011.

### **Committees of the Board of Directors; Audit Committee Financial Expert**

The Board of Directors of the Company does not have a standing audit, compensation or nominating committee. Instead, the entire Board of Directors fulfills the functions of such committees. The Board of Directors has determined that Mr. Joseph A. Geraci, II is an "audit committee financial expert" as such term is defined under Item 407(d)(5) of Regulation S-K. This determination was based primarily in part on Mr. Geraci's experience as Director of Finance for Gelstat Corporation. Neither Mr. Geraci nor the only other member of the Board of Directors—Douglas M. Polinsky—are "independent" as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers' listing standards. The Company is not subject to those listing standards because its common stock is not listed for trading on a Nasdaq market or exchange.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, requires the Company's directors, executive officers and beneficial owners of more than 10% of the common stock of the Company to file with the SEC certain reports regarding their ownership of common stock or any changes in such ownership. The foregoing reporting persons became subject to these filing requirements in April 2008. Based on its own review, the Company believes that Douglas M. Polinsky and Joseph A. Geraci, II, each made late filings with respect to transactions occurring during 2011, as follows: 12,000 shares of common stock issued by the Company effective as of March 31, 2011; 50,000 shares of common stock issued by the Company effective as of June 30, 2011; 24,000 shares of common stock issued by the Company as of September 30, 2011; and 150,000 shares of common stock issued by the Company as of December 31, 2011. The individuals made filings on Form 5 reporting these transactions for purposes of Section 16(a) on February 14, 2012.

**ITEM 11****EXECUTIVE AND DIRECTOR COMPENSATION****Executive Compensation***Summary Compensation Table*

The following table sets forth the total compensation paid by the Company during its two most recent fiscal years ended December 31, 2011 and 2010 to the persons who served as the Company's President or Chief Executive Officer and Chief Financial Officer during such periods (collectively, the "named executives").

| Name and Principal Position                      | Year | Salary<br>(\$) | Stock Awards (\$) | All Other<br><u>Compensation (\$)</u> | Total<br>(\$) |
|--|------|----------------|-------------------|---------------------------------------|---------------|
| Douglas M. Polinsky,<br>Chief Executive Officer  | 2011 | \$ 0 (1)       | \$ 24,000 (2)     | -                                     | \$24,000      |
|  | 2010 | \$ 0 (1)       | \$ 30,000 (3)     | -                                     | \$30,000      |
| Joseph A. Geraci, II,<br>Chief Financial Officer | 2011 | \$ 0 (1)       | \$ 24,000 (2)     | -                                     | \$24,000      |
|  | 2010 | \$ 0 (1)       | \$ 30,000 (3)     | -                                     | \$30,000      |

The named executive did not receive a salary during the year ended December 31, 2011, primarily because the (1) Company did not then have the resources to pay, or commit to pay, such individual a regular market-based salary for his services.

The named executive received a stock award of \$24,000 for services rendered in 2011. This represents the dollar (2) amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services during the year indicated.

The named executive received a stock award of \$30,000 for services rendered in 2010. This represents the dollar (3) amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services during the year indicated.

### ***Employment Agreements with Executives***

The Company does not currently have employment agreements with Messrs. Polinsky and Geraci, and currently has no plans to enter into employment agreements with such individuals.

### ***Outstanding Equity Awards at Fiscal Year End***

The Company had no outstanding options, warrants, unvested stock awards or equity incentive plan awards as of December 31, 2011 held by any named executive. In addition, the Company has no options, warrants, unvested stock awards or equity incentive plan awards outstanding and held by any named executive as of the date of this filing.



**Director Compensation**

The Company did not pay director compensation in 2011; however the Company reimbursed its directors for their expenses incurred in attending or participating in meetings of the board of directors or other Company-related meetings.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The table below sets forth certain information with respect to beneficial ownership of our common stock as of December 31, 2011 (on which date there were an aggregate of 11,480,224 shares of common stock outstanding), by:

- each director of the Company
- each named executive (*see* Item 11 above)
- all current directors and executive officers of the Company as a group, and
- each person or entity known by the Company to beneficially own more than 5% of our common stock.

Unless otherwise indicated in the table or its footnotes, the address of each of the following persons or entities is 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391, and each such person or entity has sole voting and investment power with respect to the shares of common stock set forth opposite their respective name.

| Name   | <b>Number of<br/>Shares<br/>Beneficially<br/>Owned <sup>(1)</sup></b> | <b>Percentage of<br/>Outstanding<br/>Shares <sup>(1)</sup></b> |   |
|--|---|--|---|
| Douglas M. Polinsky <sup>(2)</sup>   | 2,494,500   | 21.7   | % |
| Joseph A. Geraci, II <sup>(3)</sup>  | 2,536,000   | 22.1   | % |
| All current directors and executive officers as a group <sup>(4)</sup> (two persons) | 5,025,500   | 43.8   | % |
| Amit Sela <sup>(5)</sup>   | 633,333   | 5.5  | % |

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Beneficial ownership is determined in accordance with the rules of the SEC and includes general voting power and/or investment power with respect to securities. Shares of common stock subject to options or warrants (1) currently exercisable, or exercisable within 60 days of the applicable record date, are deemed outstanding for computing the beneficial ownership percentage of the person holding such options or warrants but are not deemed outstanding for computing the beneficial ownership percentage of any other person.

Mr. Polinsky is the Company's Chairman and Chief Executive Officer. Includes 763,500 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 5,000 common shares held by Lantern Advisers, LLC, a (2) Minnesota limited liability company co-owned by Messrs. Polinsky and Geraci, 1,591,000 common shares held individually by Mr. Polinsky, and 140,000 common shares Mr. Polinsky holds as a custodian for his children (beneficial ownership of which Mr. Polinsky disclaims).

Mr. Geraci is a director and the Company's Chief Financial Officer. Includes 5,000 common shares held by Lantern (3) Advisers, LLC, a Minnesota limited liability company co-owned by Messrs. Geraci and Polinsky, 2,346,000 common shares held by Mr. Geraci and 190,000 common shares held individually by Mr. Geraci's spouse.

(4) Includes Messrs. Polinsky and Geraci.

(5) Based on the records of the Company, Mr. Sela's address is 13564 Westermesse Road, Minnetonka, MN 55305.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

**Transactions with Related Persons**

During 2011, the Company's officers and directors (Douglas Polinsky and Joseph A. Geraci, II) loaned the Company a total of \$85,000 through Lantern Advisers, LLC, a Minnesota limited liability company co-owned by them. Loaned funds were advanced to the Company on the following dates and in the following increments:

- \$20,000 on January 11, 2011;
- \$20,000 on March 15, 2011;
- \$20,000 on July 15, 2011; and
- \$25,000 on December 30, 2011.

In each case, loans were made under terms and conditions set forth in an unsecured term promissory note providing for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, with accrued interest be paid on a monthly basis until the anniversary of the loan, at which time the entire unpaid principal balance of the promissory note will become due.

Total short-term related party notes at December 31, 2011 and December 31, 2010 were \$213,675 and \$94,800, respectively, and provided working capital for the Company. Total long-term related party notes at December 31, 2011 and December 31, 2010 were \$0 and \$11,200, respectively.

**Director Independence**

The Company currently has two directors, Messrs. Joseph A. Geraci, II and Douglas M. Polinsky, neither of whom are "independent" as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers' listing standards. The Company is not subject to those listing standards because its common stock is not listed for trading on a Nasdaq market. In addition, the Company does not have a standing audit, compensation or nominating committee. Instead, the entire board of directors fulfills the function of such committees.

**ITEM 14**

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

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Aggregate fees billed by our principal independent registered public accounting firm for the fiscal years indicated:

|                    | 2010     | 2011     |
|--------------------|----------|----------|
| Audit Fees         | \$29,500 | \$28,000 |
| Audit-Related Fees | 0        | 0        |
| Tax Fees           | 0        | 0        |
| All Other Fees     | 0        | 0        |
| Total              | \$29,500 | \$28,000 |

*Audit Fees.* The fees identified under this caption were for professional services rendered by Baker Tilly Virchow Krause, LLP for years ended 2010 and 2011 in connection with the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q. The amounts also include fees for services that are normally provided by the independent public registered accounting firm in connection with statutory and regulatory filings and engagements for the years identified.

*Audit-Related Fees.* The fees identified under this caption were for assurance and related services that were related to the performance of the audit or review of our financial statements and were not reported under the caption "Audit Fees." This category may include fees related to the performance of audits and attestation services not required by statute or regulations, and accounting consultations about the application of generally accepted accounting principles to proposed transactions.

*Tax Fees.* The fees identified under this caption were for tax compliance and corporate tax services. Corporate tax services encompass a variety of permissible services, including technical tax advice related to tax matters; assistance with state and local taxes.

*Approval Policy.* Our entire Board of Directors approves in advance all services provided by our independent registered public accounting firm. All engagements of our independent registered public accounting firm in years ended 2010 and 2011 were pre-approved by the Board of Directors.

**PART IV**

**ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Financial Statements**

Report of Independent Registered Public Accounting Firm on Financial Statements

Balance Sheets – December 31, 2011 and December 31, 2010

Statements of Operations – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011

Statement of Shareholders' Equity (Deficit) – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011

Statements of Cash Flows – Years ended December 31, 2011, December 31, 2010 and Period from January 10, 2006 (inception) to December 31, 2011

Notes to Financial Statements

**Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Amended and Restated Articles of Incorporation of Poker Magic, Inc. <sup>(1)</sup>               |
| 3.2                   | Amended and Restated Bylaws of Poker Magic, Inc. <sup>(1)</sup>                                  |
| 4                     | Form of Common Stock Certificate <sup>(1)</sup>  |
| 10.1                  | Asset Purchase Agreement with Select Video, Inc., dated March 10, 2006 <sup>(1)</sup>            |
| 10.2                  | License Agreement with Bally's Park Place, Inc., dated December 26, 2007 <sup>(1)</sup>          |
| 10.3                  | Amendment to License Agreement with Bally's Park Place, Inc., dated June 26, 2008 <sup>(2)</sup> |
| 10.4                  | Promissory Note with Lantern Advisers, LLC, dated September 30, 2011 <sup>(3)</sup>              |
| 10.5                  | Promissory Note with Joseph A. Geraci, II, dated September 30, 2011 <sup>(3)</sup>               |
| 10.6                  | Promissory Note with Douglas Polinsky, dated September 30, 2011 <sup>(3)</sup>                   |

- 10.7 Promissory Note with Lantern Advisers, LLC, dated December 30, 2011 \*
- 14 Code of Ethics <sup>(4)</sup>
- 31.1 Section 302 Certification of the Chief Executive Officer \*
- 31.2 Section 302 Certification of the Chief Financial Officer \*
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

(1) Incorporated herein by reference to the registrant's registration statement on Form 10-SB, filed on January 29, 2008.

(2) Incorporated by reference to Exhibit 10.2 to the registrant's current report on Form 8-K, filed on July 10, 2008.

(3) Incorporated by reference to Exhibits 10.1 through 10.3 to the registrant's quarterly report on Form 10-Q, filed on November 9, 2011.

(4) Available on registrant's website at [www.pokermagicinc.com](http://www.pokermagicinc.com), as permitted under Item 406(c) of Regulation S-K.

\*Filed electronically herewith.

**SIGNATURES**

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

POKER MAGIC, INC.

/s/ Douglas Polinsky  
Douglas Polinsky  
Chief Executive Officer

Dated: February 29, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature and Name                               | Position/Title   | Date              |
|--|--|-------------------|
| /s/ Douglas M. Polinsky<br>Douglas M. Polinsky   | Chief Executive Officer, President and<br>Director (principal executive officer)     | February 29, 2012 |
| /s/ Joseph A. Geraci, II<br>Joseph A. Geraci, II | Chief Financial Officer and Director<br>(principal accounting and financial officer) | February 29, 2012 |

**EXHIBIT INDEX**

| Exhibit Number | Description  |
|----------------|--|
| 10.7           | Promissory Note with Lantern Advisers, LLC, dated December 30, 2011  |
| 31.1           | Section 302 Certification of the Chief Executive Officer   |
| 31.2           | Section 302 Certification of the Chief Financial Officer   |
| 32.1           | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |